



## **Mackay Sugar Limited**

**ABN 12 057 463 671**

### **INDEPENDENT EXPERT'S REPORT**

*We conclude the Proposed Transaction is fair and reasonable  
for Voting Shareholders and Investment Shareholders  
of Mackay Sugar Limited*

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**3 July 2019**

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The Independent Directors  
Mackay Sugar Limited  
PO Box 5720  
MACKAY MAIL CENTRE QLD 4741

The Independent Directors,

## **RE: INDEPENDENT EXPERT'S REPORT (THE "REPORT")**

# **1 Introduction**

## **1.1 Overview of the Proposed Transaction**

### **1.1.1 Proposed Transaction**

On 8 February 2019, Mackay Sugar Limited ("**Mackay Sugar**" or the "**Company**") executed a Subscription Agreement with Nordzucker AG ("**Nordzucker**") whereby Nordzucker will, subject to certain conditions precedent, subscribe for 70% of the equity in Mackay Sugar in exchange for \$60 million, and provide a shareholder loan of up to another \$60 million ("**Shareholder Loan**") (the "**Proposed Transaction**").

The equity to be issued to Nordzucker will be in the form of Converting Preference Shares ("**CPS**"). The CPS will entitle Nordzucker to 70% of the voting rights in Mackay Sugar (effective immediately post-transaction), and to the first \$33.33 million in Mackay Sugar dividends declared ("**Preference Dividends**"). This equates to an effective preference of \$10 million in dividends that would otherwise have been payable to Mackay Sugar's pre-existing shareholders (\$33.33 million x 30% = \$10 million). Once the Preference Dividends have been paid in full, the CPS will convert to ordinary shares in Mackay Sugar ("**Ordinary Shares**"), with voting, income and capital rights.

The \$60 million in equity capital and up to \$60 million debt capital to be provided by Nordzucker is required for Mackay Sugar to undertake essential capital and maintenance works, repay around \$18.8 million in outstanding grower contributions, and to provide required working capital. Nordzucker will also provide management, corporate, balance sheet and engineering support to Mackay Sugar post completion of the Proposed Transaction.

Mackay Sugar currently has two classes of shares on issue:

- **Voting Shares:** which have voting rights, but no income or capital rights; and
- **Investment Shares:** which have income and capital rights, but no voting rights;

(collectively "**Shares**" and "**Shareholders**").

Only active growers can hold a Voting Share, which entitles them to one vote per grower. Following retirement from the industry, former growers can retain their Investment Shares and hence income and capital rights. As at the date of this Report, there were 801 Voting Shares on issue, comprising 0.001% of Mackay Sugar's expanded equity capital, and 212.9 million Investment Shares on issue, comprising 99.99% of Mackay Sugar's expanded equity capital.

We understand that key terms under the Shareholder Loan Agreement and the Subordination Agreement will include:

- Total drawdowns which are limited to \$60 million, comprising a completion drawdown of \$23 million, capital expenditure drawdowns of 40% of Mackay Sugar's capital expenditure program for the Financial Year ("FY") ending 31 May 2020, FY21 and FY22;
- An interest rate consistent with that charged by Mackay Sugar's senior lenders on new capital expenditure loans to be provided by them;
- Intended capital repayments of \$10 million on each of 31 May 2022 and 31 May 2023, and a final repayment on 31 May 2024 (subject to restrictions imposed by the senior lenders); and
- That the Shareholder Loan will be subordinated to Mackay Sugar's senior borrowings.

Under the Proposed Transaction, occupational health and safety, and environmental indemnities provided by Mackay Sugar are not covered by warranty and indemnity insurance. Accordingly, there may be a potential future increase in the Shareholder Loan (to be provided by Nordzucker) of up to \$15 million (refer **Section 2.1** for further details) in respect to the indemnities claimed in this regard.

The Proposed Transaction is subject to a range of conditions precedent. One of these being that the Voting Shares and Investment Shares are converted into Ordinary Shares at the time of completion of the Proposed Transaction (on a one-for-one basis). Each pre-existing Mackay Sugar shareholder will then have ordinary voting, income and capital rights. Other key conditions precedent are set out in **Section 1.1.3**.

### **1.1.2 Context of the Proposed Transaction**

The Proposed Transaction is the result of a two-and-a-half-year global search by the Mackay Sugar Board and its advisors, to identify and attract a cornerstone investor.

Although Mackay Sugar has been provided with a number of non-binding offers/expressions of interest throughout the well-publicised process, it culminated in Mackay Sugar finding only a single acceptable offer/investor, in the form of Nordzucker and the Proposed Transaction.

Concurrent with the process to recapitalise the business, the financial position of Mackay Sugar has continued to deteriorate in recent periods, with Mackay Sugar's reported net assets having decreased each year since 31 May 2016, from approximately \$222 million at that time, to \$176 million as at the half year ended 30 November 2018, and with a further reduction expected to around \$111 million by the financial year ending 31 May 2019 (refer **Section 5.7**). During this time, Mackay Sugar has booked material impairments on its investment in the Sugar Australia joint venture ("**JV**") as well as its fixed assets, has had an increase in its debt burden, and has breached its banking covenants (which its senior lenders have continued to waive in light of the Proposed Transaction).

During this time, Mackay Sugar's auditors have also issued audit reports that include an emphasis of matter in respect of Mackay Sugar continuing to trade as a going concern and indicating that certain assets may need to be disposed of outside of the ordinary course of business. In Mackay Sugar's most recent Half Year Independent Auditor's Review Report (in relation to the six-month period ended 30 November 2018), the Independent Auditor stated that:

*"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."*



### 1.1.3 Conditions Precedent

In order for the Proposed Transaction to occur, certain conditions precedent must first be met, or waived. The key conditions precedent include:

- Voting Shareholders:
  - Over 50% approval of the Proposed Transaction;
  - 75% approval of changes to the Mackay Sugar constitution to allow for the issuance of the CPS to Nordzucker; and
  - 75% approval to convert the Voting Shares into Ordinary Shares.
- Investment Shareholders: 75% approval to convert the Investment Shares into Ordinary Shares;
- Having ceased to own the Mossman sugar milling business ("**Mossman Mill**");
- Amending the cane supply and processing agreement to reintroduce the Commercial Cane Sugar ("**CCS**") cane payment formula for the 2019 season;
- The Shareholder Loan Agreement and Subordination Agreement being in an agreed form;
- Agreement with Corporate Noteholders in respect of Mackay Sugar redeeming/repaying the corporate notes (which have a face value of \$50 million and are due for redemption on 5 April 2020) for \$25 million (representing a 50% discount);
- Agreement with Mackay Sugar's senior lenders regarding future funding arrangements;
- Mackay Sugar receiving written consents or waivers (as applicable) to the rights of other parties which may arise on the change of control of Mackay Sugar which will result from the Proposed Transaction from counterparties to certain material agreements;
- Other conditions precedent typical for a transaction of this nature, including Foreign Investment Review Board ("**FIRB**") approval;
- Nordzucker procuring a warranty and indemnity insurance policy;
- That no prescribed occurrences have occurred (i.e. that no material adverse changes have occurred); and
- Queensland State Government providing financial support for the Proposed Transaction.

As at the date of this Report, all conditions precedent had been met, agreed to, or are expected to occur or be waived.

In respect of the following conditions precedent:

- **Corporate Notes:** on 2 May 2019, it was agreed that the redemption value would be reduced by 50% of the face value of the notes (i.e. discounted from \$50 million to \$25 million) in exchange for Mackay Sugar redeeming/repaying the notes within 30 days of completion of the Proposed Transaction;



- **Mossman Mill:** as at the date of this Report, Mackay Sugar had entered into a Put and Call Option with Far Northern Milling Pty Ltd (“FNM”), whereby, if exercised, FNM and its associates would pay Mackay Sugar purchase consideration for the Mossman Mill assets net of Mackay Sugar making contributions / potential contributions towards certain liabilities and contingent liabilities. The net impact of these items is an amount payable by Mackay Sugar which is estimated to be approximately of \$1.5 million for employee provisions and an additional \$2.1 million should the Mossman Mill shut down prior to 31 December 2020;
- **Senior borrowing arrangements:** on 23 May 2019, Mackay Sugar obtained a Credit Approved Term Sheet from its senior lenders in respect of an extension of some facilities and inclusion of some additional new facilities; and
- **Queensland State Government financial support:** on 30 May 2019, Queensland Deputy Premier and Treasurer Jackie Trad announced that the upcoming State Budget would commit up to \$14 million towards securing an international investor in Mackay Sugar. This amount has been considered and does not impact our valuation analysis.

Due to the nature of the conditions precedent, they must all occur (or be waived) in order for the Proposed Transaction to proceed.

#### 1.1.4 New Constitution & Reserved Matters

Resolution 2 of the Shareholders Meeting is to repeal and replace Mackay Sugar’s constitution.

The proposed new constitution, which is set out in Annexure C to the Explanatory Memorandum, addresses the condition precedent in respect of amending Mackay Sugar’s constitution to allow for the issuance of the CPS, as well as other amendments that the current Directors consider are required to reflect the current and proposed circumstances relevant to the Company and its shareholders. A summary of the key changes is provided at Schedule 2 of the Explanatory Memorandum.

Included in these changes are alternate voting protocols for certain situations (“**Reserved Matters**”), which are designed to provide additional protections to growers. Reserved Matters will require the approval of 75% of all shareholders voting and 50% of Voting Shareholders voting (notwithstanding that the combined Voting Shareholders and Investment Shareholders pre-Proposed Transaction will hold only 30% of the voting rights post-transaction).

The Reserved Matters include:

- Amending the New Constitution;
- A material change in the nature of the business;
- Winding up of the company;
- Liquidation of the company’s assets;
- Variation to share rights;
- Amending the procedures for election of Grower Directors;
- Issuing of shares without offering to all shareholders;
- Issue of any further preference shares; and
- Listing the company on a stock/securities exchange.

### 1.1.5 Overview of the Parties

Mackay Sugar, an unlisted Australian public company, is Australia's second largest sugar milling business. It operates milling and marketing divisions and has investments in sugar refining joint ventures and other sugar related businesses. Mackay Sugar operates four mills and owns a 25% interest in two sugar refining operations. Further information in respect of Mackay Sugar is provided in **Section 5**.

Nordzucker, a German based group, is the second largest sugar manufacturer in Europe. It is a grower-owned sugar business that has 18 production and refinery facilities throughout Europe and 180 years industry experience. Further information in respect of Nordzucker is provided in **Section 6**.

Crowe Horwath Corporate Finance (Aust) Ltd ("**Crowe Horwath**") is the corporate finance arm of Findex Group and was engaged by the Independent Directors to prepare this Report. On 2 April 2019, Crowe Horwath Corporate Finance (Aust) Ltd changed its name to Findex Corporate Finance (Aust) Ltd. For the avoidance of doubt, the legal entity, all ownership, licensing and staffing remained the same. The only change was a change to using two brands – both Crowe Horwath and Findex, as relevant. As we were engaged under the Crowe Horwath brand, we have continued to adopt that reference for the purpose of this Report.

### 1.1.6 Transaction Documentation and Shareholder Meetings

A Notice of Meeting and Explanatory Memorandum, of which this Report forms part, will be provided to Mackay Sugar's Shareholders, setting out the relevant background to assist them in voting on the various resolutions described in that documentation ("**Resolutions**").

Each of the Resolutions are conditional on the passing of the other Resolutions.

The Shareholders' Meetings will be held on or around 31 July 2019.

## 1.2 Summary of Opinion

In our opinion, the Proposed Transaction is **fair and reasonable** for the Voting Shareholders and Investment Shareholders of Mackay Sugar.

In particular:

- ***The Proposed Transaction is fair***: since the value of a Mackay Sugar share after the Proposed Transaction (minority basis) is greater than the value of a Mackay Sugar share prior to the Proposed Transaction (controlling basis) (refer **Section 1.6**); and
- ***The Proposed Transaction is reasonable***: since it is fair. Additionally, the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction (refer **Section 1.7**).

Additionally, the related party financial benefits associated with the Proposed Transaction are either:

- Included in our fairness assessment, and by extension, are fair in the context of the Proposed Transaction; or
- Are advantageous to Shareholders in Mackay Sugar.

Related party financial benefits are discussed in **Section 1.3.2 and Section 1.4.2**.



## 1.3 Purpose of the Report

### 1.3.1 Section 611

If the Proposed Transaction is implemented, Nordzucker will move from holding less than 20% (currently nil) to more than 20% of the equity and voting power in Mackay Sugar. Accordingly, as set out in **Section 3**, Mackay Sugar is seeking shareholder approval in respect of the Proposed Transaction under Section 611(Item 7) of the Corporations Act 2001 (the “**Act**”).

Further details in relation to the above requirements are set out in **Section 3**.

### 1.3.2 Related Party Financial Benefits

Under Section 208 of the Act, for a public company to give a financial benefit to a related party, it must:

- Obtain the approval of its members in the manner set out in Section 217 to 227 of the Act; and
- Give the benefit within 15 months following such approval;

unless the financial benefit falls within an exception set out in Section 210 to 216 of the Act.

Under the Proposed Transaction, the following are considered to be, or potentially be, related party financial benefits (“**Related Party Financial Benefits**”):

- The issuance of CPS, which will entitle Nordzucker to the first \$33.33 million in dividends including effective preferential dividends of \$10 million;
- The Shareholder Loan to be provided by Nordzucker (of up to \$60 million); and
- The potential future increase in the Shareholder Loan to be provided by Nordzucker (by up to \$15 million) if certain indemnity claims are made by Nordzucker against Mackay Sugar for certain employment issues within two years and environmental issues within three years, under the Proposed Transaction.

Accordingly, under Resolution 1 as set out in the Notice of Meeting, Mackay Sugar is seeking shareholder approval in respect of these items.

### 1.3.3 Purpose of Report

The Independent Directors of Mackay Sugar have appointed Crowe Horwath to prepare an Independent Expert’s Report expressing our opinion as to whether or not the Proposed Transaction is fair and reasonable to Shareholders, and set out the reasons for our opinion, to assist those Shareholders to form a view as to whether or not to approve the Proposed Transaction.

As part of this analysis, we are also required to consider the Related Party Financial Benefits.

This Report will form part of Mackay Sugar’s Notice of Meeting and Explanatory Memorandum to be sent to Shareholders.

## 1.4 Approach to Our Assessment

### 1.4.1 Fairness and Reasonableness of the Proposed Transaction

In evaluating the fairness and reasonableness of the Proposed Transaction, we considered the requirements of the Act and relevant Regulatory Guides issued by Australian Securities and Investments Commission (“ASIC”), which provide guidance on interpretation.

This Report takes into account the provisions of Regulatory Guide 111 ‘Content of Expert Reports’ (“**Regulatory Guide 111**”) issued by ASIC which states that if a company issues securities and, as a consequence, the allottee acquires over 20% of the company, the transaction should be analysed as if it were a takeover bid.

Regulatory Guide 111 issued by ASIC distinguishes “fair” from “reasonable” and considers:

- An offer to be “fair” if the value of the offer is equal to or greater than the value of the securities subject to the offer. This comparison should be made assuming 100% ownership of the “target” and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage held by the “bidder” or its associates in the target when making this comparison.

In circumstances where the business or financials of the Target will be materially different after the transaction (compared to prior), it is common commercial and economic practice to assess fairness by comparing the value of the shareholders’ interests both before and after the Proposed Transaction.

- An offer to be “reasonable” if it is fair. It might also be reasonable if, despite being “not fair”, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior alternative.

For the purposes of this Report, Crowe Horwath has treated “fair” and “reasonable” as separate concepts.

Whilst general in nature, paragraph 5 of Regulatory Guide 111, states that “in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction.”

Accordingly, in forming our opinion on whether or not the Proposed Transaction is fair for Mackay Sugar shareholders, we compared the value of a share in Mackay Sugar:

- Pre-implementation of the Proposed Transaction, on a controlling basis (i.e. the existing Voting Shares and Investment Shares); and
- Post-implementation of the Proposed Transaction, on a minority interest basis (i.e. the Ordinary Shares that will be held by former Voting Shareholders and Investment Shareholders).

If the value post-implementation is greater, then the Proposed Transaction would be considered fair. If the value post-implementation is less, then the Proposed Transaction would be considered not fair.



In this instance, both the Voting Shares and the Investment Shares have restricted rights compared to an ordinary class of shares (which has voting, income and capital rights). Accordingly, each of the present classes of shares would be of lesser value than an Ordinary Share (which will only exist post-implementation). Therefore, if the Proposed Transaction was assessed assuming that the Voting Shares and Investment Shares pre-implementation were in fact Ordinary Shares, as it would only be even more fair, compared to if they were instead assessed as the restricted (and less valuable) classes of shares that they presently are (i.e. the assumption that the Voting Shares and Investment Shares have more rights than they do, only narrows any potential incremental value under the Proposed Transaction).

Based on the above, in the first instance, we assessed the Voting Shares and Investment Shares pre-implementation of the Proposed Transaction as if they were Ordinary Shares.

Based on the availability of financial information, forecast information and timing of this report, we adopted a valuation date of 31 May 2019 ("**Valuation Date**").

The variables adopted in this report are interdependent and together result in a valuation conclusion that in our opinion is reasonable having regard to our stated definition/premise of value, valuation scope, date and purpose, and results of applicable cross-checks. Accordingly, it is not appropriate to consider changing any variable(s) in isolation.

This engagement is deemed by Accounting Professional and Ethical Standards ("**APES**") 225 Valuation Services to be a Valuation Engagement and was prepared in compliance with same.

In assessing whether the Proposed Transaction is reasonable, we first considered whether the Proposed Transaction is fair. Additionally, we compared the potential advantages and disadvantages of the Proposed Transaction to Mackay Sugar shareholders and assessed whether the advantages outweigh the disadvantages. The advantages and disadvantages in relation to the Proposed Transaction are discussed in **Section 1.7** and **Section 12.4**.

Additionally, we have given due consideration to relevant matters in other guidelines, including Regulatory Guide 112 'Independence of Experts' ("**Regulatory Guide 112**") issued by ASIC.

#### **1.4.2 Related Party Financial Benefits**

For the avoidance of doubt, we address each of the Related Party Financial Benefits as follows:

- ***Issuance of the Converting Preference Shares ("CPS")***: in our fairness assessment, and in our consideration of the advantages and disadvantages of the Proposed Transaction;
- ***Shareholder Loan***: in our consideration of the advantages and disadvantages of the Proposed Transaction; and
- ***Potential increase in the Shareholder Loan related to indemnity claims***: in our consideration of the advantages and disadvantages of the Proposed Transaction.

### **1.5 Opinion on the Proposed Transaction**

In our opinion, the **Proposed Transaction is fair and reasonable** for the Voting Shareholders and Investment Shareholders of Mackay Sugar. Our fairness and reasonableness assessment for the Proposed Transaction is set out below.

## 1.6 The Proposed Transaction is Fair

### 1.6.1 Ordinary Share Basis

Summarised below is a comparison of the assessed value of an assumed Ordinary Share in Mackay Sugar before the Proposed Transaction (on a controlling basis) and after the Proposed Transaction from the perspective of the pre-existing Shareholders (on a minority basis):

| Mackay Sugar<br>Assessed Value Cents per Ordinary Share |  |      |  |      |
|---|--|------|--|------|
|   | Pre Proposed<br>Transaction<br>Controlling Basis |      | Post Proposed<br>Transaction<br>Minority Basis |      |
|   | Low  | High | Low  | High |
| Ordinary Shares   | nil or nominal                                   |      | 1.0  | 10.4 |

Source: Crowe Horwath Calculations

Since the value of a Mackay Sugar share after the Proposed Transaction is greater than the value of a Mackay Sugar share prior to the Proposed Transaction, the **Proposed Transaction is fair** for Mackay Sugar's Shareholders. The **Proposed Transaction is therefore also reasonable.**

Notwithstanding that our valuation conclusion for the pre-transaction scenario is nil or nominal, the methodologies adopted resulted in values that are implicitly on a controlling basis and therefore include a premium for control (for pre-transaction scenario). This is because, for pre-transaction scenario, we considered all of Mackay Sugar's cash flows and assets without the application of any discounts for lack of control / minority interest discounts.

Additionally, pre-existing shareholders in Mackay Sugar are effectively receiving a premium for relinquishing their collective control of Mackay Sugar under the Proposed Transaction (on the basis that their shares in Mackay Sugar will be of greater value after the Proposed Transaction is implemented).

The adopted range, whilst wide, is representative of the uncertainty that Mackay Sugar faces, predominantly with respect to sugar prices, foreign exchange rates and the operational performance of the mills (cognisant of the state of repair of its core operating equipment).

In our valuation of a share after the Proposed Transaction, we considered the net present value ("NPV") of the \$10 million in preferential dividends related to the Converting Preference Shares as a surplus liability from the perspective of Mackay Sugar's pre-existing Shareholders. Accordingly, our fairness assessment addresses the Related Party Financial Benefit related to the issuance of the Converting Preference Shares.

For the avoidance of doubt, we note that the above fairness assessment does not include the Related Party Financial Benefit related to the Shareholder Loan and any associated indemnity claims. These have been considered in our reasonableness assessment.

### 1.6.2 Voting Shares and Investment Shares

As discussed in **Section 1.3**, we assessed the Proposed Transaction assuming that the Voting Shares and Investment Shares prior to the Proposed Transaction were in fact Ordinary Shares.

This assumption did not impact our conclusion on fairness, as the restrictions pertaining to each of these classes of shares only makes them less valuable than an Ordinary Share (prior to the Proposed Transaction). In other words, if lower valuations for each had been adopted, the Proposed Transaction would be even more fair.

## 1.7 The Proposed Transaction is Reasonable

As the **Proposed Transaction** is fair, it **is also reasonable** for Mackay Sugar Shareholders.

Furthermore, in our opinion, **the advantages outweigh the disadvantages of the Proposed Transaction.**

The advantages and disadvantages of the Proposed Transaction are set out below.

### 1.7.1 Advantages to Shareholders from the Proposed Transaction

The primary advantages to the Shareholders in proceeding with the Proposed Transaction are as follows:

**a) *The Proposed Transaction is fair***

As set out above, the Proposed Transaction is fair.

**b) *The Proposed Transaction provides much needed funding***

The Proposed Transaction will provide Mackay Sugar with operation critical funding required for investment in necessary capital equipment and maintenance, to repay certain liabilities and also for general working capital purposes, with a view to improving the operating and financial performance of the business.

**c) *Repayment of outstanding grower contributions***

The Proposed Transaction will enable the repayment around \$18.8 million in outstanding grower contributions, 50% within 30 days and 50% within twelve months.

**d) *Incentivisation of desired behaviours associated with the change in the cane payment formula***

The proposed change in the cane payment formula will re-align growers' economic rewards to sugar content, and Mackay Sugar's economic rewards to milling efficiency.

**e) *Expectation of improved returns for Shareholders of Mackay Sugar under the changes to the cane payment formula***

The reversion to the CCS Cane Price Formula, currently in use in the rest of the Australian sugar industry and previously used by Mackay Sugar, will cause a reduction in the cane supply price, which will benefit the Shareholders and Mackay Sugar. However, grower suppliers are expected to gain more than this reduction from improved mill performance associated with investment in mill restoration following implementation of the Proposed Transaction.

Over the five seasons 2013 to 2017, Mackay Sugar estimate the cane price would have been on average around \$0.50/t of cane less under the CCS formula. However, as a result of the proposed investment in the mills, thereby restoring performance to former levels, grower suppliers would receive shorter milling seasons, resulting in increased growing seasons. In turn, this would result in higher crop yields and higher aggregated cane payments to growers. The benefit of this to the grower suppliers is higher CCS cane in the current season and more cane the following season. Mackay Sugar estimate the benefit of this is around \$0.95/t cane. In addition, Mackay Sugar estimate higher mill reliability would have delivered around another \$1.00/t cane on average to grower suppliers over this period from cane that was left unharvested (standover cane) because of reduced mill performance. In 2016 and 2017, around 860,000 tonnes of cane was not harvested and became standover cane in the following season. Having the mill capacity restored are expected to benefit both grower suppliers and shareholders of Mackay sugar.



Hence, from a grower supplier perspective, the trade-off of a lower cane price under CCS is anticipated to be offset by improved mill performance, delivering higher CCS and more cane crushed. From a Mackay Sugar / Shareholder perspective, a lower cane price and higher cane throughput at the margin delivers increased profits.

**f) Restructuring of Mackay Sugar's borrowings**

A condition precedent of the Proposed Transaction is that Mackay Sugar agrees with its lenders (senior and Corporate Noteholders) on the steps to be taken to restructure its borrowings. The restructuring of Mackay Sugar's borrowings, as set out in **Section 1.1.3** and **Section 2.4**, will enhance Mackay Sugar's ability to meet its capital, maintenance and operational obligations going forward. Notwithstanding, the additional borrowings could place more financial burden on Mackay Sugar in terms of principal and interest payments in the future, should operational cash flows not improve.

**g) Sale of the loss-making Mossman Mill**

A condition precedent of the Proposed Transaction is that the loss-making Mossman Mill will be sold. This will reduce the financial burden of the Mossman Mill on the remaining business post-transaction (notwithstanding the net amount Mackay Sugar will/may pay to sell the Mossman Mill).

As at the date of this Report, Mackay Sugar had entered into a Put and Call Option with FNM, whereby, if exercised, FNM and its associates would pay Mackay Sugar purchase consideration for the Mossman Mill assets net of Mackay Sugar making contributions / potential contributions towards certain liabilities and contingent liabilities. The net impact of these items is an amount payable by Mackay Sugar which is estimated to be approximately of \$1.5 million for employee provisions and an additional \$2.1 million should the Mossman Mill shut down prior to 31 December 2020.

**h) Improved grower, staff and supplier confidence**

The financial and other support being provided by Nordzucker under the Proposed Transaction is likely to result in improved grower, staff and supplier confidence. In the absence of the Proposed Transaction, it is possible that a further deterioration in confidence of these key stakeholders could materially and adversely impact Mackay Sugar's future operations.

**i) Management, engineering and corporate support of Nordzucker**

Nordzucker is a sophisticated, large and successful global sugar business that has relevant management, engineering and corporate expertise to support Mackay Sugar.

**j) Agronomic support from Nordzucker to growers**

In addition to providing support directly to Mackay Sugar from a milling perspective, Nordzucker has agronomic expertise and resources to share with growers.

**k) A strong underlying balance sheet**

Whilst further financial support from Nordzucker above the combined \$120 million in debt and equity funding under the Proposed Transaction has not been committed, Nordzucker has a substantial balance sheet (cash as at 28 February 2019 of € 266 million), and post-transaction, will have a vested interest in the success of Mackay Sugar.



***l) As milling performance improves, crop yields and quality should improve (other things being equal)***

If the capital investment in Mackay Sugar improves mill performance, as is expected, there will also be flow through impacts at the grower and farm level. These positive impacts include the ability to optimise the timing of harvests to improve sugar content and also crop growth / cane volumes. In turn, these improvements would benefit the mills, and so on and so forth.

***m) The expected turnaround of Mackay Sugar's operations and consequential improved financial health as would be reflected in its financial statements***

Mackay Sugar's most recent Half Year Independent Auditor's Review Report for the period ended 30 November 2018 included an emphasis of matter in respect of Mackay Sugar continuing to trade as a going concern, and indicating that certain assets may need to be disposed of outside of the ordinary course of business.

The expected turnaround of Mackay Sugar's operations and consequential improved financial health as would be reflected in its financial statements, as a result of the implementation of the Proposed Transaction, should remove doubt in relation to the company continuing to operate as a going concern, and also mitigate future risk of impairment of its assets.

***n) An opportunity to participate in future potential upside associated with expected sugar price increases***

There is a real chance that if the Proposed Transaction does not proceed, certain growers and / or Mackay Sugar may not participate in the potential future upside associated with expected sugar price increases. The Proposed Transaction provides growers and Mackay Sugar with greater ability to participate in any upside by better positioning Mackay Sugar from an operational perspective.

***o) Continued positive impact on the local community and contribution to the local, State and National economy***

Implementation of the Proposed Transaction increases the chances of Mackay Sugar continuing to be an important contributor to the various communities and economies it impacts.

***p) Existing shareholders in Mackay Sugar will retain a blocking stake post-transaction***

Under the terms of the Proposed Transaction, existing Shareholders will retain a combined 30% interest in Mackay Sugar, and have three Grower Directors on the Board. This will enable them to block special resolutions.

***q) Voting Shareholders will obtain income and capital rights***

Voting Shareholders will obtain income and capital rights in respect of the conversion of their Voting Shares to Ordinary Shares. This will entitle those shares to potential future dividends, returns of capital in the ordinary course of business and capital proceeds upon wind up. The resultant Ordinary Shares will stand equal with all other shares post-transaction, once the Nordzucker preference dividend is paid.

***r) Investment Shareholders will obtain voting rights***

Investment Shareholders will obtain voting rights in respect of the conversion of their Investment Shares to Ordinary Shares. The resultant Ordinary Shares will stand equal with all other shares post-transaction, once the Nordzucker preference dividend is paid.



**s) *Changes under the New Constitution***

Voting Shares and Investment Shareholders may consider the changes under the Constitution to be net favourable, including the Reserved Matters voting protocols, which increase the voting powers of the pre-existing Shareholders in the situations set out in **Section 1.1.4** and **Section 2.5**.

**t) *Nordzucker is a grower-owned business***

Being a well established and successful grower-owned business, Nordzucker is experienced in efficiently producing sugar whilst working with and attending to the needs of growers in a sustainable and successful long-term manner.

**u) *The issuance of the Converting Preference Shares (“CPS”) is commercial in the context of the overall support being provided by and risk being taken on by Nordzucker***

Firstly, the issuance of the Converting Preference Shares provides much needed capital and is critical to the overall Proposed Transaction and future success of Mackay Sugar.

Secondly, the preferential dividends under the Converting Preference Shares are, in our opinion, commercial in the context of the overall support being provided by and risk being taken on by Nordzucker. In support of this conclusion, our fairness assessment addresses the preferential dividends and results in a conclusion that the Proposed Transaction is fair.

**v) *The Shareholder Loan is a commercial benefit to Mackay Sugar (as opposed to Nordzucker)***

Typically, due to their second-standing nature, subordinated borrowings attract a higher interest rate than senior borrowings (to compensate the lender for the higher repayment risk being taken on).

In the case of the Shareholder Loan, Mackay Sugar will pay interest at the same rate as the senior borrowings (in respect of the senior debt capital expenditure facility), for a loan which is subordinated (i.e. ranks behind senior debt). This is a benefit to Mackay Sugar associated with the Proposed Transaction.

**w) *The ability to roll up certain indemnity claims into the Shareholder Loan is a commercial benefit to Mackay Sugar (as opposed to Nordzucker)***

In ordinary circumstances, indemnity claims in respect of transactions are payable immediately. Hence, the ability to defer payment of certain of these potential claims by rolling them into the Shareholder Loan is a benefit to Mackay Sugar. Additionally, the terms of the Shareholder Loan, are more favourable than otherwise available to Mackay Sugar in the market (i.e. at an interest rate comparable with Mackay Sugar’s senior borrowings for debt that is subordinated). Furthermore, the gross up mechanism detailed in Section 6 of the Explanatory Memorandum is not disadvantageous. It ensures a full contribution up to the indemnity cap of \$4.5 million would effectively be made by the 30% shareholders post-transaction (i.e. \$15 million loan top up x 30% minority interest = \$4.5 million contribution in respect of the relevant indemnity claims).

**x) *The Directors unanimously support the Proposed Transaction***

In accordance with Section 2.1(a) of the Explanatory Memorandum, the Directors of Mackay Sugar are of the opinion that the Proposed Transaction is in the best interests of Shareholders, and unanimously recommend that Shareholders vote in favour of the various resolutions.





**y) *The future if the Proposed Transaction does not proceed is highly uncertain, and likely to be grim***

If the Proposed Transaction does not proceed, Mackay Sugar will face a range of challenges in respect of meeting its operating and financial requirements, which may impact its ability to continue operating as a going concern. In this case, it is likely that an External Administrator would be appointed.

**z) *There are no known alternatives***

As at the date of this Report, the Proposed Transaction is the only recapitalisation or other alternative that is known to the Directors following a lengthy process to identify other potential options. The Directors do not expect any other viable alternatives to emerge in the short time frame relevant to Mackay Sugar's sensitive situation.

**1.7.2 Disadvantages to Shareholders from the Proposed Transaction**

The primary disadvantages to the Shareholders in proceeding with the Proposed Transaction are as follows:

**a) *Dilution of existing shareholders with Nordzucker to obtain control***

The issuance of shares to Nordzucker will dilute the interests of existing Shareholders, and will result in Nordzucker assuming control of Mackay Sugar by virtue of obtaining a 70% voting interest.

**b) *Nordzucker will obtain rights to certain dividends in preference to other Shareholders***

Under the Proposed Transaction, the fact that the first \$33.33 million in dividends would be payable to Nordzucker equates to an effective preference of \$10 million in dividends that would otherwise have been payable to other Ordinary Shareholders post-transaction (\$33.33 million x 30% = \$10 million).

**c) *Uncertainty in respect of the impacts associated with the changes to the cane payment formula***

Whilst the changes to the cane payment formula are anticipated to better align miller and grower behaviours with economic rewards to each, the existing and proposed cane payment formula are each subject to a range of factors that are difficult to predict.

**d) *Changes under the New Constitution***

Voting Shares and Investment Shareholders may consider the changes under the Constitution to be net unfavourable.

**e) *Nordzucker has predominantly sugar beet experience***

Notwithstanding Nordzucker's scale and success as a sugar producer, its history and experience is in sugar beet as opposed to sugar cane. Whilst Nordzucker has many positive factors to contribute to Mackay Sugar, as set out above, there are differences in the both the growing and milling of cane as compared to beet.

**f) *Uncertainty in respect of tax consequences to Shareholders***

There is uncertainty as to the tax consequences to Shareholders associated with the Proposed Transaction. In accordance with Section 9.2 of the Explanatory Memorandum, Mackay Sugar has applied to the Australian Taxation Office (“ATO”) for a private binding tax ruling as to the nature of those consequences, if any. As at the date of this Report, the ATO had not advised Mackay Sugar of the outcome of the ruling.

**g) *Potential emergence of a superior alternative***

Some Shareholders may consider that a superior alternative opportunity to the Proposed Transaction will emerge. Notwithstanding this potential view, in our opinion, and in the opinion of the Directors, it is highly unlikely given the diligent, global and protracted process that Mackay Sugar and its advisors have been through, that resulted in the Proposed Transaction being the only presently available option. As at the date of this Report, the Directors were not aware of any imminent superior alternatives to the Proposed Transaction.

## **1.8 Other**

This letter is a summary of Crowe Horwath’s opinion on the Proposed Transaction. This letter should be read in conjunction with the detailed Report and appendices as attached. Unless the context requires otherwise, references to “we”, “our” and similar terms refer to Crowe Horwath.

Our limitations and reliance on information is set out in **Section 3.4**.

For the avoidance of doubt:

- The term “FY” refers to financial years ended 31 May. Mackay Sugar’s financial year is aligned with the commencement of the sugar crushing season;
- All figures are in Australian dollars unless otherwise stated.

Yours faithfully,



**CROWE HORWATH CORPORATE FINANCE (AUST) LTD**

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## 2 The Proposed Transaction

### 2.1 Overview of the Proposed Transaction

On 8 February 2019, Mackay Sugar executed a Subscription Agreement with Nordzucker whereby Nordzucker will, subject to certain conditions precedent, subscribe for 70% of the equity in Mackay Sugar in exchange for \$60 million, and provide a shareholder loan of up to another \$60 million.

The equity to be issued to Nordzucker will be in the form of CPS. The CPS will entitle Nordzucker to 70% of the voting rights in Mackay Sugar (effective immediately post-transaction completion), and to the first \$33.33 million in Mackay Sugar dividends declared. This equates to an effective preference of \$10 million in dividends that would otherwise have been payable to Mackay Sugar's pre-existing shareholders (\$33.33 million x 30% = \$10 million). Once the Preference Dividends have been paid, the CPS will convert into Ordinary Shares in Mackay Sugar, with ordinary voting, income and capital rights.

The \$60 million equity capital and up to \$60 million debt to be provided by Nordzucker is required for Mackay Sugar to undertake essential capital and maintenance works, repay around \$18.8 million in outstanding grower contributions and to provide required working capital. Nordzucker will also provide management, corporate, balance sheet and engineering support to Mackay Sugar post completion of the Proposed Transaction.

The Proposed Transaction follows a two-and-a-half-year period in which Mackay Sugar has been unsuccessful in identifying and attracting similar levels of capital and corporate support.

Mackay Sugar currently has two classes of shares on issue:

- **Voting Shares:** which have voting rights, but no income or capital rights; and
- **Investment Shares:** which have income and capital rights, but no voting rights;

Only active growers can hold a Voting Share, which entitles them one vote per grower. Following retirement from the industry, former growers can retain their Investment Shares and hence income and capital rights.

Both Voting Shares and Investment Shares are held by Growers. Investment Shares are also held by former growers and other permitted shareholders.

We understand that key terms under the Shareholder Loan Agreement and the Subordination Agreement will include:

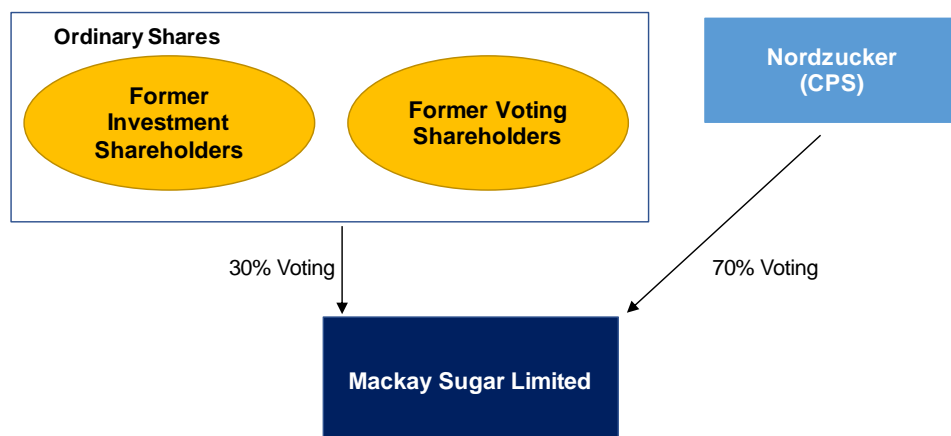
- Total drawdowns which are limited to \$60 million, comprising a completion drawdown of \$23 million, capital expenditure drawdowns of 40% of Mackay Sugar's capital expenditure program for FY20, FY21 and FY22;
- An interest rate consistent with that charged by Mackay Sugar's senior lenders on new capital expenditure loans to be provided by them;
- Intended capital repayments of \$10 million on each of 31 May 2022 and 31 May 2023, and a final repayment on 31 May 2024 (subsequent to any restrictions imposed by the senior lenders); and
- That the Shareholder Loan will be subordinated to Mackay Sugar's senior borrowings.

Under the Proposed Transaction, occupational health and safety, and environmental indemnities provided by Mackay Sugar are not covered by warranty and indemnity insurance. Accordingly, there may be a potential future increase in the Shareholder Loan (to be provided by Nordzucker) of up to \$15 million for certain employment issues within two years and environmental issues within three years, under the Proposed Transaction.



The Proposed Transaction is subject to a range of conditions precedent. One of these being that the Voting Shares and Investment Shares are converted into Ordinary Shares at the time of completion of the Proposed Transaction (on a one-for-one basis). Each pre-existing Mackay Sugar shareholder will have ordinary voting, income and capital rights. Other key conditions precedent are set out in **Section 2.4**.

If the Proposed Transaction is approved and implemented, the ownership structure immediately post-Proposed Transaction will be as follows:



Once the Preference Dividends have been paid, the CPS will convert to Ordinary Shares (with no change to the voting rights depicted above).

## 2.2 Related Party Financial Benefits

Under the Proposed Transaction, the following are considered to be, or potentially be, related financial benefits:

- The issuance of CPS, which will entitle Nordzucker to the first \$33.33 million in dividends including effective preferential dividends of \$10 million;
- The Shareholder Loan to be provided by Nordzucker (of up to \$60 million); and
- The potential future increase in the Shareholder Loan to be provided by Nordzucker (up to \$15 million) if certain indemnity claims are made by Nordzucker against Mackay Sugar for certain employment issues within two years and environmental issues within three years, under the Proposed Transaction.

## 2.3 No Intention to Change Core Business

Nordzucker has advised Mackay Sugar that it currently has no intention to:

- Change the business of the Company;
- Inject further funding other than contemplated by the Proposed Transaction;
- Make substantial changes with regard to the current employees and their employment without just cause;
- Transfer any assets of the Company between the Company, Nordzucker or any of its associates;
- Redeploy the fixed assets of the Company in the short term; and

- Significantly change the financial or dividend distribution policies of the Company other than as stipulated in the New Constitution (reflecting the conversion to Ordinary Shares and impacts associated with the CPS).

## **2.4 Conditions Precedent**

In order for the Proposed Transaction to occur, certain conditions precedent must first be met, or waived. The key conditions precedent include:

- Voting Shareholders:
  - Over 50% approval of the Proposed Transaction;
  - 75% approval of the Mackay Sugar constitution to allow for the issuance of the CPS to Nordzucker; and
  - 75% approval to convert the Voting Shares into Ordinary Shares;
- Investment Shareholders: 75% approval to convert the Investment Shares into Ordinary Shares
- Having ceased to own the Mossman Mill;
- Amending the cane supply and processing agreement to reintroduce the CCS cane payment formula before the 2019 season;
- The Shareholder Loan Agreement and Subordination Agreement being in an agreed form;
- Agreement with Corporate Noteholders in respect of Mackay Sugar redeeming/repaying the Corporate Notes (which have a face value of \$50 million and are due for redemption on 5 April 2020) for only \$25 million (representing a 50% discount);
- Agreement with Mackay Sugar's senior lenders regarding future funding arrangements;
- Mackay Sugar receiving written consents or waivers (as applicable) to the rights of other parties which may arise on the change of control of Mackay Sugar which will result from the Proposed Transaction from counterparties to certain material agreements;
- Other conditions precedent typical for a transaction of this nature, including FIRB approval;
- Nordzucker procuring a warranty and indemnity insurance policy;
- That no prescribed occurrences have occurred (i.e. that no material adverse changes having occurred); and
- Queensland State Government providing financial support for the Proposed Transaction.

As at the date of this Report, all conditions precedent had been met, agreed to, or were expected to be met, agreed to or waived in the short-term.

In respect of the following conditions precedent:

- **Corporate Notes:** on 2 May 2019, it was agreed that the redemption value would be reduced by 50% of the face value of the Corporate Notes (i.e. discounted from \$50 million to \$25 million) in exchange for Mackay Sugar redeeming/repaying the notes within 30 days of completion of the Proposed Transaction;

- **Mossman Mill:** as at the date of this Report, Mackay Sugar had entered into a Put and Call Option with FNM, whereby, if exercised, FNM and its associates would pay Mackay Sugar purchase consideration for the Mossman Mill assets net of Mackay Sugar making contributions / potential contributions towards certain liabilities and contingent liabilities. The net impact of these items is an amount payable by Mackay Sugar which is estimated to approximately of \$1.5 million for employee provisions and an additional \$2.1 million should the Mossman Mill shut down prior to 31 December 2020;
- **Senior borrowing arrangements:** on 23 May 2019, Mackay Sugar obtained a Credit Approved Term Sheet from its senior lenders in respect of an extension of some facilities and inclusion of some additional new facilities; and
- **Queensland State Government financial support:** on 30 May 2019, Queensland Deputy Premier and Treasurer Jackie Trad announced that the upcoming State Budget would commit up to \$14 million towards securing an international investor in Mackay Sugar. This amount has been considered and does not impact our valuation analysis.

Due to the nature of the conditions precedent, they must all occur (or be waived) in order for the Proposed Transaction to proceed.

## **2.5 New Constitution & Reserved Matters**

Resolution 2 of the Shareholders Meeting is to repeal and replace Mackay Sugar's constitution.

The proposed new constitution, which is set out in Annexure C to the Explanatory Memorandum, addresses the condition precedent in respect of amending Mackay Sugar's constitution to allow for the issuance of the CPS, as well as other amendments that the current Directors consider are required to reflect the current and proposed circumstances relevant to the Company and its shareholders. A summary of the key changes is provided at Schedule 2 of the Explanatory Memorandum.

Included in these changes are alternate voting protocols for certain situations, which are designed to provide additional protections to Growers. Reserved Matters will require the approval of 75% of all shareholders voting and 50% of Voting Shareholders voting (notwithstanding that the combined Voting Shareholders and Investment Shareholders pre-transaction will hold only 30% of the voting rights post-transaction).

The Reserved Matters include:

- Amending the New Constitution;
- A material change in the nature of the business;
- Winding up of the company;
- Liquidation of the company's assets;
- Variation to share rights;
- Amending the procedures for election of Grower Directors;
- Issuing of shares without offering to all shareholders;
- Issue of any further preference shares; and
- Listing the company on a stock/securities exchange.

## 2.6 Key Steps

Consistent with the Subscription Agreement, the Proposed Transaction comprises the following key steps:

- Satisfaction of the Conditions Precedent set out above;
- Subscription by Nordzucker for the CPS, in exchange for payment of \$60 million;
- Entry into the Nordzucker Shareholder Loan, providing for a loan by Nordzucker of up to \$60 million to Mackay Sugar;
- Subscription amount and Shareholder Loan funds to be applied consistent with an investment plan agreed by the parties, focusing on maintenance and capital works to improve mill performance, and otherwise as determined by the Board;
- The Company to repay one half (up to a maximum of \$10 million) of the outstanding grower contributions within 30 days of completion and the balance within twelve months; and
- Mackay Sugar redeeming/repaying the Corporate Notes within 30 days of completion of the Proposed Transaction.

## 2.7 Transaction Documentation and Shareholder Meetings

A Notice of Meeting and Explanatory Memorandum, of which this Report forms part, will be provided to Mackay Sugar's Shareholders, setting out the relevant background to assist them in voting on the Resolutions.

Each of the Resolutions are conditional on the passing of the other Resolutions.

The Shareholders' Meetings will be held on or around 31 July 2019.

## 2.8 Post Proposed Transaction Effective Shareholdings

Summarised below is the dilutionary impact of the Proposed Transaction on effective shareholdings in Mackay Sugar:

| Mackay Sugar   |                          |                |                           |                |
|--|--------------------------|----------------|---------------------------|----------------|
| Dilutionary Impact of the Proposed Transaction - Effective Interests |                          |                |                           |                |
|  | Pre Proposed Transaction |                | Post Proposed Transaction |                |
|  | #                        | %              | #                         | %              |
| Former Investment Shareholders                                       | 212,879,330              | 99.9996%       | 212,879,330               | 29.9999%       |
| Former Voting Shareholders   | 801                      | 0.0004%        | 801                       | 0.0001%        |
| Nordzucker   | -                        | 0.0000%        | 496,720,306               | 70.0000%       |
| <b>Total</b>   | <b>212,880,131</b>       | <b>100.00%</b> | <b>709,600,437</b>        | <b>100.00%</b> |

Source: Mackay Sugar and Share Subscription Agreement

For the avoidance of doubt, we note that Voting Shareholders and Investment Shareholders will be issued with Ordinary Shares under the Proposed Transaction, on a one-for-one basis, while Nordzucker will be issued with CPS, which will convert to Ordinary Shares once the Preference Dividends have been paid (as previously discussed in **Section 2.1**).

## **2.9 Board Representation**

### **2.9.1 Current Board Structure**

At the date of this Report, Mackay Sugar's Board of Directors comprised:

- Non-Grower Directors:
  - Mark Day – Executive Chairman and Chief Executive Officer (“CEO”);
  - Maurice Maughan – Independent Director; and
  - Richard Findlay – Independent Director.
- Grower Directors:
  - Paul Manning - Deputy Chairman;
  - Andrew Cappello;
  - Lee Blackburn;
  - Lawrence Bugeja; and
  - Anthony Bartolo.

### **2.9.2 Proposed Board Structure**

Post successful implementation of the Proposed Transaction, the new Board will comprise a minimum of six and maximum of eight directors. The revised Board of Mackay Sugar will comprise:

- Three Grower Directors; and
- A minimum of three and maximum of five Nordzucker Directors.

If the Proposed Transaction is implemented, Nordzucker intends to nominate a Chairman of the Board and two other Nordzucker directors, as set out in Section 3 and Section 7 of the Explanatory Memorandum.

In addition, Mark Day, current Executive Chairman and CEO will become a Nordzucker Executive Director and continue on the Board, as well as fulfil various strategic roles, including assisting with the transition.

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## 3 Scope of Report

### 3.1 Purpose of the Report

If the Proposed Transaction is implemented, Nordzucker will move from holding less than 20% (currently nil) to more than 20% of the equity and voting power in Mackay Sugar.

As set out below, Mackay Sugar is seeking shareholder approval of the Proposed Transaction under Section 611(Item 7) of the Act.

Additionally, under Resolution 1 as set out in the Notice of Meeting, Mackay Sugar is seeking shareholder approval in respect of the Related Party Financial Benefits.

The Independent Directors of Mackay Sugar have appointed Crowe Horwath to prepare an Independent Expert's Report expressing our opinion as to whether or not the Proposed Transaction is fair and reasonable to those shareholders, and set out the reasons for our opinion, to assist those shareholders to form a view as to whether or not to approve the Proposed Transaction. As part of this analysis, we are also required to consider the related party financial benefits.

The ultimate decision of voting for or against the Proposed Transaction should be based on each Shareholder's assessment of their own circumstances. The factors which Shareholders should have regard to in making this assessment include (but are not limited to) their risk profile, expectations as to the value of their shares if the Proposed Transaction does or does not occur, and the likely changes in the business if the Proposed Transaction proceeds.

Shareholders should read the Explanatory Memorandum issued by Mackay Sugar in relation to the Proposed Transaction. If Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek independent professional advice.

### 3.2 Corporations Act 2001

#### 3.2.1 Section 611

Subject to certain exceptions, Section 606(1) of the Act ("**Section 606**") does not allow a person to acquire voting shares in a public company if that person's or someone else's voting power in the Company increases, either from 20% or below to more than 20%, or any increase from a starting point that is above 20% and below 90% (aside from certain creeping exemptions).

Section 611(Item 7) of the Act ("**Section 611**") requires that, in the absence of an offer in which all shareholders can participate, any allotment of shares resulting in a person holding in excess of 20% of the issued share capital of the company must be approved by the shareholders who are not participating in the proposed allotment (non-associated shareholders).

Section 611 provides an exemption to Section 606 if the transaction is approved by a resolution at a General or Extraordinary Meeting of the company's shareholders.

Mackay Sugar is seeking exemption under Section 611 through approval by the Shareholders.



### **3.2.2 Related Party Financial Benefits**

Under Section 208 of the Act, for a public company to give a financial benefit to a related party, it must:

- Obtain the approval of its members in the manner set out in Section 217 to 227 of the Act; and
- Give the benefit within 15 months following such approval;

unless the financial benefit falls within an exception set out in Section 210 to 216 of the Act.

Under the Proposed Transaction, the following are considered to be, or potentially be, related party financial benefits:

- The issuance of CPS, which will entitle Nordzucker to the first \$33.33 million in dividends including effective preferential dividends of \$10 million;
- The Shareholder Loan to be provided by Nordzucker (of up to \$60 million); and
- The potential future increase in the Shareholder Loan to be provided by Nordzucker (by up to \$15 million) if certain indemnity claims are made by Nordzucker against Mackay Sugar for certain employment issues within two years and environmental issues within three years, Mackay Sugar under the Proposed Transaction.

Accordingly, under Resolution 1 as set out in the Notice of Meeting, Mackay Sugar is seeking shareholder approval in respect of these items.

## **3.3 Basis of Evaluation**

### **3.3.1 Fairness and Reasonableness of the Proposed Transaction**

In evaluating the fairness and reasonableness of the Proposed Transaction, we have considered the requirements of the Act and relevant Regulatory Guides issued by ASIC, which provides guidance on interpretation.

This Report takes into account the provisions of Regulatory Guide 111 issued by ASIC which states that if a company issues securities and, as a consequence, the allottee acquires over 20% of the company, the transaction should be analysed as if it were a takeover bid.

Regulatory Guide 111 distinguishes “fair” from “reasonable” and considers:

- An offer to be “fair” if the value of the offer is equal to or greater than the value of the securities subject to the offer. This comparison should be made assuming 100% ownership of the “target” and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage held by the “bidder” or its associates in the target when making this comparison.

In circumstances where the business or financials of the Target will be materially different after the transaction (compared to prior), it is common commercial and economic practice to assess fairness by comparing the value of the shareholders' interests both before and after the Proposed Transaction.

- An offer to be “reasonable” if it is fair. It might also be reasonable if, despite being “not fair”, the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior alternative.

For the purposes of this Report, Crowe Horwath has treated “fair” and “reasonable” as separate concepts.

Whilst general in nature, paragraph 5 of Regulatory Guide 111, states that “in deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction.”

Accordingly, in forming our opinion on whether or not the Proposed Transaction is fair for Mackay Sugar shareholders, we compared the value of a share in Mackay Sugar:

- Pre-implementation of the Proposed Transaction, on a controlling basis; and
- Post-implementation of the Proposed Transaction, on a minority interest basis.

If the value post-implementation is greater, then the Proposed Transaction would be fair. If the value post-implementation is less, then the Proposed Transaction would be not fair.

In this instance, both the Voting Shares and the Investment Shares have restricted rights compared to Ordinary Shares (which have voting, income and capital rights). Accordingly, each of the present classes of shares would be of lesser value than an Ordinary Share. Therefore, if the Proposed Transaction was assessed assuming that the Voting Shares and Investment Shares pre-implementation were in fact Ordinary Shares, it would only be even more fair, if instead they were assessed as the restricted (and less valuable) classes of shares that they presently are (i.e. the assumption that the Voting Shares and Investment Shares have more rights than they do, only narrows any potential incremental value under the Proposed Transaction).

Based on the above, in the first instance, we assessed the Voting Shares and Investment Shares pre-implementation of the Proposed Transaction as if they were Ordinary Shares.

Based on the intended timing of the Proposed Transaction, we adopted a valuation date of 31 May 2019.

In assessing whether the Proposed Transaction is reasonable, we first considered whether the Proposed Transaction is fair. Additionally, we have compared the potential advantages and disadvantages of the Proposed Transaction to Mackay Sugar's Shareholders and assessed whether the advantages outweigh the disadvantages. The advantages and disadvantages in relation to the Proposed Transaction are discussed in **Section 12.4**.

Additionally, we have given due consideration to relevant matters in other guidelines, including Regulatory Guide 112.

### 3.3.2 Related Party Financial Benefits

For the avoidance of doubt, we address each of the related party financial benefits as follows:

- **Issuance of the CPS:** in our fairness assessment, and in our consideration of the advantages and disadvantages of the Proposed Transaction;
- **Shareholder Loan:** in our consideration of the advantages and disadvantages of the Proposed Transaction; and
- **Potential increase in the Shareholder Loan related to indemnity claims:** in our consideration of the advantages and disadvantages of the Proposed Transaction.

### 3.4 Limitations and Reliance on Information

The variables and analysis adopted in this Report are interdependent and together result in conclusions and opinions that must be considered as a whole. Selecting portions of the analysis or factors considered by it, without considering all factors and analysis together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Crowe Horwath's opinion is based on economic, business and trading conditions prevailing at the date of this Report. These conditions can change significantly over relatively short periods. If they did change materially, the valuation and our opinion could vary significantly. Should we become aware of any factors that alter our assumptions as given, we reserve the right to alter our Report.

This Report is based upon financial and non-financial information provided by Mackay Sugar and their advisers and included site visits to each of the Mackay Region mill sites (refer **Section 10.2.1**)

Crowe Horwath has considered and relied upon the information provided by Mackay Sugar and their advisors and has no reason to believe that any material facts have been withheld. Mackay Sugar has represented to us in writing that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. We have no reason to believe that any material facts have been withheld.

The information provided to Crowe Horwath has been evaluated through analysis, inquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the Shareholders of Mackay Sugar. However, Crowe Horwath does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose. While Crowe Horwath has made what it considers to be appropriate inquiries for the purposes of forming its opinion, due diligence of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an Independent Expert.

An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We note that the financial information provided for the period ended 31 May 2019 has not been audited.

The information provided to Crowe Horwath included the base case financial models set out in **Section 7.2**. As discussed in that section, based on our analysis, we consider there to be a reasonable basis to adopt the base case financial models, coupled with our further analysis and adjustment, for the purpose of this Report under Regulatory Guide 170 "*Prospective Financial Information*" ("**Regulatory Guide 170**") issued by ASIC. Notwithstanding, it should be noted that the forecasts and underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions. For the avoidance of doubt, uncertainties in respect of the forecasts have been dealt with in our valuation analysis.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, Crowe Horwath:

- Assumes no responsibility and offers no legal opinion or interpretation on any issue; and
- Has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no legal proceedings, other than as publicly disclosed.

## 4 Industry Overview

### 4.1 Industry Overview

#### 4.1.1 Overview

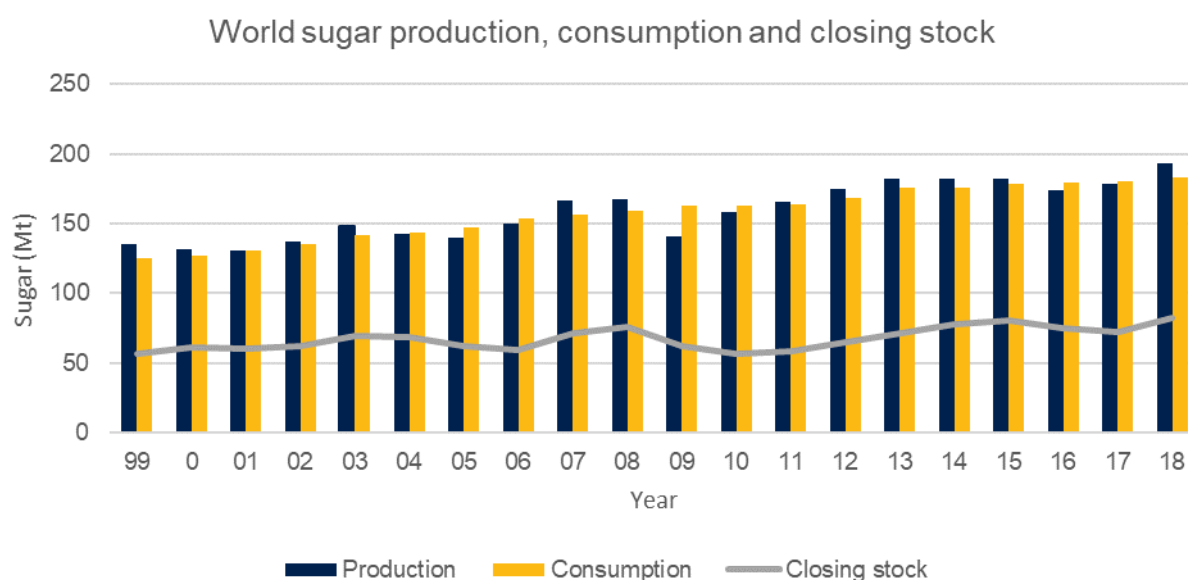
Sugar is produced from two sources, sugar cane and sugar beets. Sugar cane grows in warm tropical climates e.g. North Queensland, Brazil, Asia, and the southern region of the USA. The sugar cane plant requires 12 to 16 months to mature, before being harvested. Once harvested, the sucrose starts to break down, therefore it is critical for sugarcane mills to be located in close proximity to the cane fields to minimize transport costs and sucrose losses. In contrast, sugar beets are an annual crop of temperate climate zones e.g. Germany, North America, and France. Unlike sugarcane, sugar beets are directly processed into refined sugar. Sugar cane is initially converted to crystallised raw sugar which is later refined into white sugars.

All Australian produced sugar is sourced from sugar cane, with the majority of the sugar produced being exported given the small size of the domestic market (i.e. Australia's production of raw sugar surpasses its local demand).

Sugar manufacturing in Queensland contributes more than \$4 billion<sup>1</sup> in economic activity, providing more than 22,500 jobs and supports a large number of businesses and communities in regional Queensland.

#### 4.1.2 Global Sugar Industry

The global sugar industry is a highly regulated and has grown steadily over the last decade, dominated by a number of key countries (Brazil and India), which influence the key drivers of production impacting sugar prices. Global consumption levels have increased steadily from 125 Million Tonnes ("Mt") to 183 Mt over the last two decades, along with production levels which have also exhibited an increase from 135Mt to 193Mt, although volatile over the period due to weather and other factors.



Source: ABARES (2018) Agriculture commodity statistics

<sup>1</sup> Australian sugar milling council - Sugar policy insights February 2019

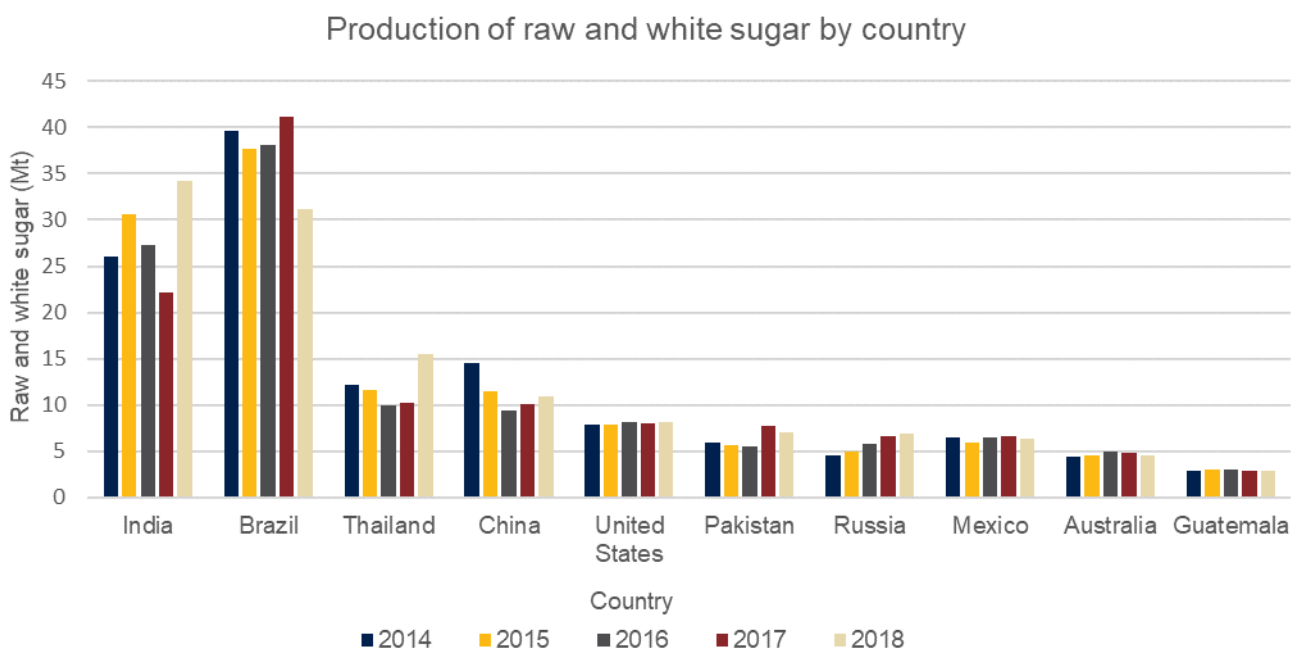
#### 4.1.3 Demand

Key external drivers for demand and consumption of raw sugar are sugar-based processed foods which influence the demand for industry products. A rise in production of confectionery and other sugar-based processed foods boosts demand for raw sugar. However, a growing increase in health consciousness associated with the negative impact of sugar on general health and physical wellbeing, has slowed down the consumption of sugar particularly in developed countries. However, developing countries are increasing their consumption of sugar as their economies and standards of living mature (albeit consumption per capital is still well below developed countries).

#### 4.1.4 Supply

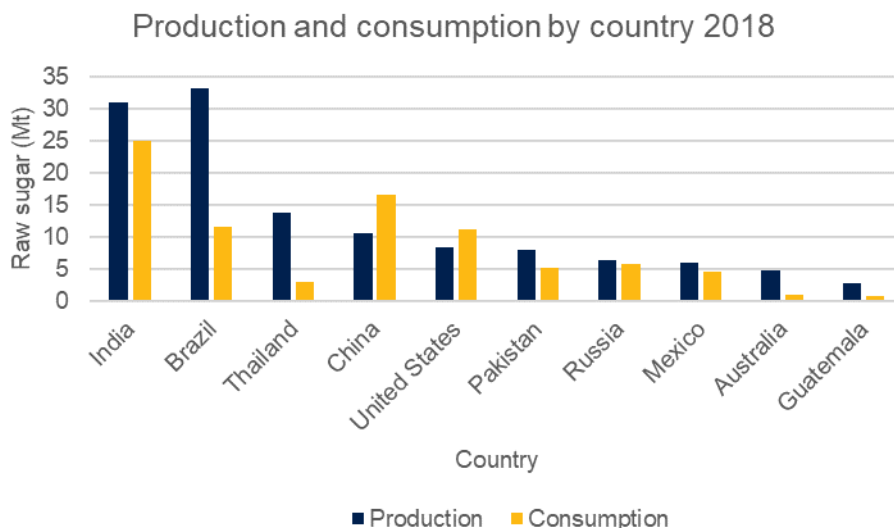
Sugar supply and production is directly correlated to the amount of land used to farm sugar cane and beet crops, and the available mill facilities to crush and process the cane and beet. Year-on-year fluctuations in supply are caused by weather events and natural disasters such as cyclones and flooding, which damage crops and impact harvest size. Sugar prices also impact the volume of sugar beet and sugar cane grown.

Brazil and India are the world's largest producers of raw sugar, producing 16% and 18% respectively. Generally, all the raw sugar produced in a country is first allocated for domestic consumption, before excess supply is exported.



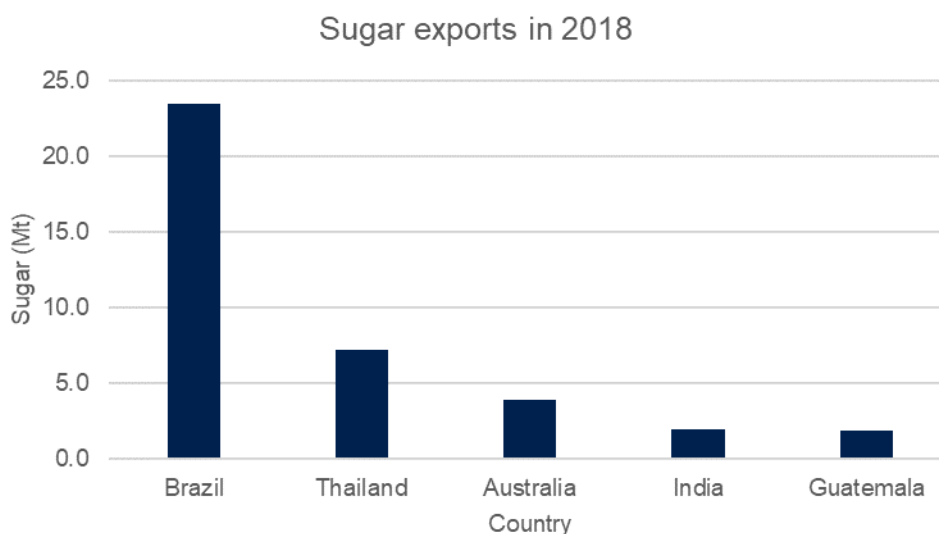
Source: ABARES (2018) Agriculture commodity statistics

Many of the largest producers are net exporters, with the exception of China and the United States. The main key exporters include Brazil, Thailand, Australia and India. Therefore, any large unexpected variation in the production from these countries will have a significant effect on the global supply of sugar and thus prices. World sugar production is expected to continue to grow modestly in 2019 and surpass consumption, resulting in a reduced annual surplus relative to 2018's all-time high. Global supply dynamics necessarily have a direct impact on sugar prices.



Source: Food Outlook Biannual Report on Global Food Markets November 2018

Brazil is the largest exporter of sugar, having exported 23.5 Mt<sup>2</sup> or 42% of global sugar exports in 2018, followed by Thailand and Australia, which exported 7.2 Mt and 3.9 Mt respectively in 2018. The graph above illustrates Australia's excess sugar production over consumption, and hence high level of exports. China is the world's largest importer, having imported 5.7Mt<sup>3</sup> in 2018, which accounts for 10% of global imports.



Source: Food Outlook Biannual Report on Global Food Markets November 2018

A competing use of sugar cane is the production of ethanol. Sugar cane is one of the main crops used to produce ethanol. In Brazil, the latest indications are pointing to an increasing share of sugarcane output being used for ethanol production, ultimately restricting supply and production of sugar, therefore placing increased upward pressure on the price of sugar.

<sup>2</sup> Food Outlook Biannual Report on Global Food Markets November 2018

<sup>3</sup> Food Outlook Biannual Report on Global Food Markets November 2018



#### 4.1.5 Raw Sugar Commodity Prices

Global raw sugar commodities are priced in United States cents per pound.

Although Australia is one of the largest raw sugar exporters in the world, sugar producers in Australia are considered 'price takers', with nearly all exported production exposed to changes in the global sugar price.

The world raw sugar indicator is represented by the Intercontinental Exchange ("ICE") sugar No. 11 Contract, for which the five year (May 2014 – May 2019) historical prices are shown below.



Source: Capital IQ

After a period of low sugar prices prior to 2015, caused by surplus in the market as a result of large production from Brazil and India, the period of 2015 to 2017 saw seasonal conditions in Brazil and India take a down turn, which created a deficit in the market causing sugar prices to rise. Following this, the period of 2017 to November 2018 saw sugar prices decline sharply. Sugar markets have returned back to surplus following Brazil's record production and also policy changes within Brazil, which reduced Brazil's domestic demand for sugar, and thus increased its supply to export markets. Another contributor to bring sugar markets to surplus is the significant expansion in Thailand and an increase sugar cane farming in India as a result of government subsidies.

The volatility of sugar prices can be attributed to a number of factors. Whilst the majority of sugar produced globally is consumed within the producing country's respective domestic market, the residual sugar then contributes to the export market. As such, a small variation in the production of sugar can cause large fluctuation in global sugar prices.

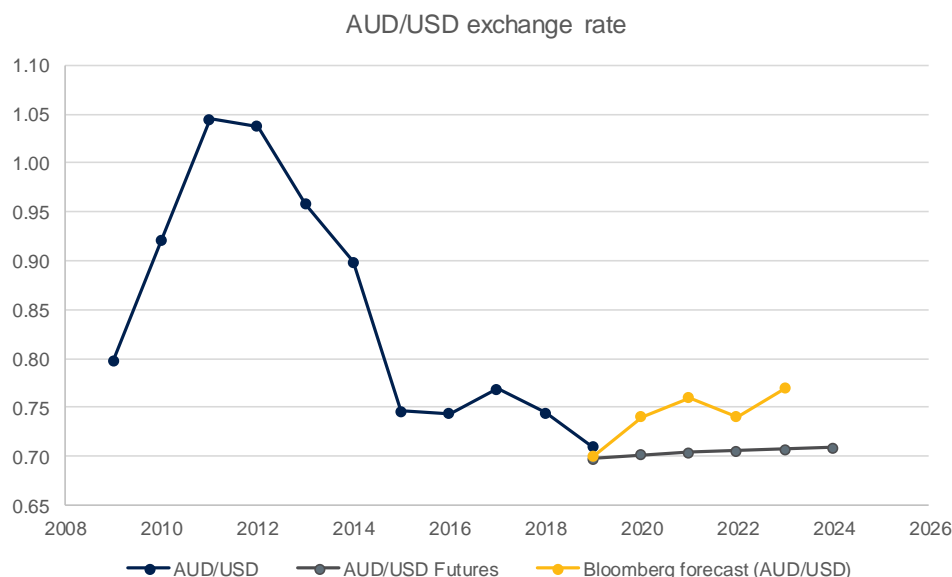
Brazil, being the largest exporter, is an important consideration in assessing the direction of global sugar prices. Further, Brazil's policy support for the production of ethanol, links oil and gasoline markets to the sugar and sugar cane markets. Since sugar cane can be used for the production of ethanol, an increase in the demand for ethanol ultimately reduces sugar production, causing a deficit in the global market, and putting upwards pressure on sugar prices.

Policies in India have also contributed to the volatility of the global sugar prices. Indian government subsidises the cane grown in India, which guarantees the purchase of all cane. This in turn can cause over supply in the international market especially during high yield seasons, putting downwards pressure on prices. The Australian Government together with Brazil have engaged in a formal complaint process under the World Trade Organisation on the subsidies provided by the Indian Government. Changes in policies by the Indian Government, as a result of the intervention by the Australian and Brazilian Government could have a material impact on global sugar prices, putting upwards pressure on prices.

#### 4.1.6 Foreign Exchange Rates

Foreign exchange also adds to the volatility of prices. Since the global sugar price is denominated in United States Dollars, fluctuations in Brazilian Real ("BRL") versus United States Dollars ("USD") can have a material impact on the volatility of global sugar prices, impacting the relative unit cost competitiveness.

As sugar is a global commodity traded on the ICE in US cents per pound, Australian sugar cane growers and manufacturers are impacted by fluctuations in the AUD/USD exchange rate.



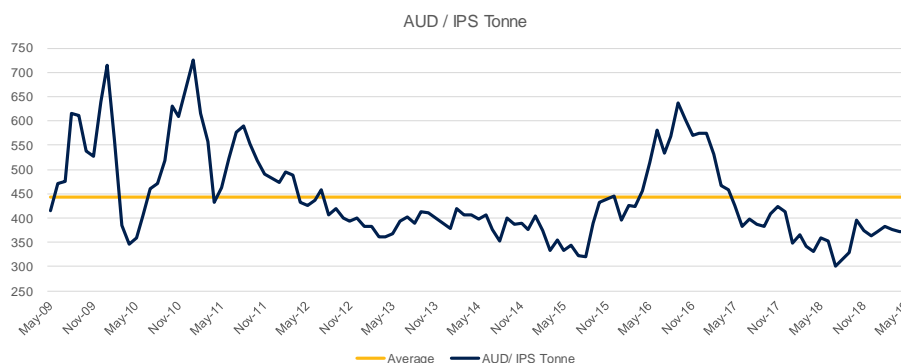
Source: Capital IQ & Bloomberg

The AUD/USD exchange rate has fluctuated over the last decade. Notwithstanding, analysts forecasts collected from 71 international banks forecast the rate to grow marginally to around AUD 1.00 : USD 0.75.

#### 4.1.7 AUD Sugar Prices

The convention around Australian sugar prices is AUD per International Polarisation Scale ("IPS") tonne, which allows for price premiums and discounts to sugar based on a benchmark scale (being 96% polarisation).

Summarised below is the Australian dollar price per IPS tonne of sugar, calculated from converting the Sugar No.11 Contract price extracted from Bloomberg using the historical AUD/USD spot rate. The long term average price is AUD 443 per IPS tonne.



Source: Capital IQ & Crowe Horwath Calculations; nominal prices

## 4.2 The Australian Sugar industry<sup>4</sup>

### 4.2.1 Overview

The Australian sugar industry produces raw and refined sugar from sugar cane. The figure below is for illustrative purposes only, however highlights the primary areas of operations, which includes: cane growing, milling, refining and terminals ports (location from which sugar is exported).



Source: Australian Sugar Milling Council;  
for illustrative purposes only

Most Australian sugar (95%) is grown and produced in Queensland, with the remaining sourced from northern New South Wales. The industry is made up of around 4,305 growers, with a total harvest area of 382,500 hectares, and around 24 mills, owned by 8 separate milling companies. Together they crush on average 32.5 million tonnes of sugar cane, producing on average 4.5 Million tonnes of raw sugar. Cane railways are used to transport freshly harvested cane to sugar mills. The entire cane railway track network and rolling stock is privately owned, operated and maintained by the sugar mill owners. After processing, raw sugar is then transported to the bulk sugar terminals, which can then be exported.

Australia is one of the largest exporters of raw sugar globally. It exports 85% of the raw sugar produced, with the remaining 15% being refined in the four Australian refineries, for sale in the domestic market. The refined products include white sugar, golden syrup, coffee sugar and cube sugar. Since a high proportion of sugar produced in Australia is exported, international competitiveness is crucial as domestic demand provides minimal support of sugar prices.

Unlike many other countries, there is no tariff protection in place for sugar produced in Australia for domestic consumption.

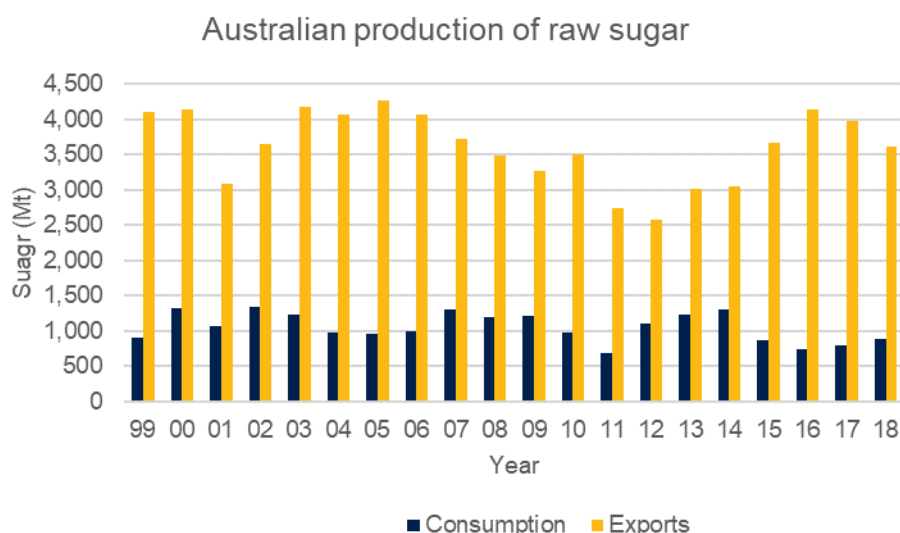
Queensland Sugar Limited (“QSL”), Wilmar Sugar, Mackay Sugar, Tully Sugar and MSF are the main marketers of Australian raw sugar exports. The largest export destinations for Australian sugar include, South Korea, Japan, United States and New Zealand. Whilst these countries have remained Australia’s key export markets, volumes fluctuate due to factors such as exchange rate movements, domestic production and government trade policies.

<sup>4</sup> [https://asmc.com.au/wp-content/uploads/2019/04/2019-Web-Brochure-on-industry\\_A4-2018-data.pdf](https://asmc.com.au/wp-content/uploads/2019/04/2019-Web-Brochure-on-industry_A4-2018-data.pdf)

## 4.2.2 Industry Assistance

Federal and State Governments provide research and development funding for the sugar industry. Sugar Research Australia is funded through a compulsory sugar levy and receives dollar-for-dollar matched funding from the Federal Government of up to 0.5%<sup>5</sup> of the industry's gross value of products. The industry also contributes significant funds above this Federal Government contribution.

## 4.2.3 Historical Performance



Source: ABARES (2018) Agriculture commodity statistics

As discussed above, Australia is a net exporter of sugar.

Australia's sugar production has declined over the last two decades due to several factors:

- Reductions in available land to farm sugar cane, competition for farm land which is used to grow other crops or for the farming of livestock e.g. bananas and cattle farming respectively;
- Sugar cane is grown in a concentrated area along the coast of Queensland and northern New South Wales, making cane production susceptible to unfavourable weather conditions, agricultural diseases, and natural disasters;
  - In 2001, production was down due to the break out of disease and heavy rainfall impacting production<sup>6</sup>. Orange rust, a fungus, caused significant impacts on the yield of cane variety Q124 which had previously been a high performing variety<sup>7</sup>. The industry is continually breeding new varieties to counter pests and diseases;
  - Tropical cyclone Yasi, in February 2011, significantly hampered sugar production in north Queensland impacting approximately 20 per cent of Australian sugar production (valued at \$240 million<sup>8</sup>).
  - In 2011, Australian production of sugar was significantly negatively impacted by excessive rainfall in late 2010, an estimated 5.7 million<sup>9</sup> tonnes of sugar cane intended to be harvested in 2010–11 was stood over (not harvested); and

<sup>5</sup> IBISWorld Industry Report C1181 Sugar Manufacturing in Australia January 2019

<sup>6</sup> ABARES Australian Commodities, vol. 8, no. 1, March quarter 2001

<sup>7</sup> ABARES Australian Commodities, vol. 8, no. 1, March quarter 2001

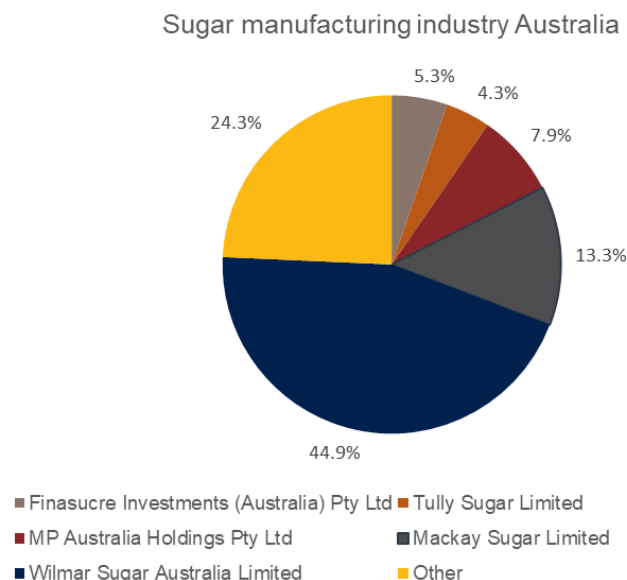
<sup>8</sup> Australian Bureau of Agricultural and Resource Economics and Sciences, Australian Commodities Report: March Quarter 2011

<sup>10</sup> IBISWorld Industry Report C1181 Sugar Manufacturing in Australia January 2019

<sup>9</sup> Australian Bureau of Agricultural and Resource Economics and Sciences, Australian Commodities Report: March Quarter 2011

#### 4.2.4 Competitive Australian Landscape<sup>10</sup>

There are 24<sup>10</sup> mills in Australia dedicated to the crushing of sugar cane and production of sugar. The industry is highly concentrated, with the four largest companies expected to account for more than 70%<sup>11</sup> of industry revenue in 2018-19.



Source: IBISWorld Industry Report C1181 Sugar Manufacturing in Australia January 2019

Over the past two decades the industry has consolidated, mainly driven by the pressure to reduce costs through economies of scale and increased efficiency, especially in years of low sugar prices, with leading sugar manufacturers increasing in size and capacity.

#### 4.2.5 Deregulation and Growers Choice Legislation

On 1 January 2006, following implementation of the Australian Government's \$334<sup>12</sup> million Sugar Industry Reform Program in 2004, the Queensland Government amended the Sugar Industry Reform Act 2004 to deregulate the sugar industry. The new legislation included two significant deregulation measures:

- The removal of restrictions on the marketing of raw sugar for export; and
- The ability of participants to negotiate contractual terms, including price.

This resulted in an end of the 'single desk' marketing structure under which all export sugar was previously acquired by QSL, and provided millers with the ability to sell the raw sugar produced (resulting from their harvest) in a manner of their choosing.

At that stage QSL were the only sugar marketers involved in the export sales of raw sugar directly to refineries in several countries. The proceeds from the sales of sugar are pooled and distributed back to the millers and growers after deducting marketing costs, with producers receiving an average price based on sales during the course of the year.

In 2014, Wilmar Sugar, Tully Sugar Limited and Maryborough Sugar announced that they would no longer export their sugar through the single desk model from 2016-17, effectively breaking away from QSL. This resulted in disputes between these mills and growers, that was resolved by allowing growers the ability to nominate a chosen sugar marketer each season through Grower Economic Interest Sugar Marketing

<sup>10</sup> [http://www.canegrowers.com.au/icms\\_docs/296118\\_canegrowers-annual-report-2017-18.pdf](http://www.canegrowers.com.au/icms_docs/296118_canegrowers-annual-report-2017-18.pdf)

<sup>11</sup> IBISWorld Industry Report C1181 Sugar Manufacturing in Australia January 2019

<sup>12</sup> <http://www.agriculture.gov.au/ag-farm-food/crops/sugar#senate-inquiry-into-sugar-marketing-arrangements>

Agreements (a series of agreements between the grower, miller and marketer that outlines the cane supply and the raw sugar sale process).

On 19 May 2015, a Private Member's Bill was introduced into the Parliament of Queensland. The amendments, made by the Sugar Industry (Real Choice in Marketing) Amendment Act 2015, gave cane growers the right to require sugar milling companies to direct the sugar, for which the growers have price exposure to third party marketers, commonly referred to as growers choice legislation ("**Growers Choice Legislation**").

Typically, this is two-thirds of the sugar produced and is known as Grower Economic Interest ("**GEI**") sugar, with the remaining position known as Miller Economic Interest ("**MEI**"). In April 2017, the Australian Government introduced a mandatory code of conduct for the sugar industry Competition and Consumer (Industry Code Sugar) Regulations 2017, which provides for pre-contract arbitration between mill owners and marketers, and between cane growers and mill owners.

## **4.3 Outlook**

Sugar prices are elastic, and price is strongly influenced by movements in production and consumption. As discussed above, foreign exchange rates are also relevant.

### **4.3.1 Short term**

The world indicator price for raw sugar is the ICE No. 11 Contract. The short term forecast for sugar price is expected to remain around US 12.5 cents per pound in 2019<sup>13</sup>, as a result of production exceeding consumption, placing downward pressure on prices.

Ongoing price volatility is expected in the short term due to the liquidity crisis unfolding in the Indian sugar industry. The crisis is the result of the mounting mill arrears payable to cane farmers. Arrears are the shortfall between the price millers can sell sugar for and the government-set minimum cane prices. To help clear mill arrears, the Indian Government has raised domestic sugar and ethanol prices.

### **4.3.2 Medium and long term**

In 2020, prices are expected to increase to US 13 cents per pound<sup>14</sup> due to a global fall in the agricultural area used to farm both sugar cane and sugar beet, therefore decreasing production. High global stocks are expected to soften the expected recovery in world sugar prices in the short term, as these stocks are consumed.

In India, record mill arrears are expected to turn some farmers away from cane growing towards alternative crops, thus reducing farming land for sugar cane and therefore production. In Thailand, rising prices of cassava relative to sugar cane are expected to reduce cane area. Both of these circumstances are anticipated to put upwards pressure on global sugar prices.

In Brazil, decreases in production are predicted due to government changes in Brazil's energy policy resulting in the production of sugar cane diverting to ethanol. The Brazilian government's commitment to carbon abatement has already created positive signals for biofuel investments that could limit sugar production and exports. These factors are expected to put upwards pressure on global sugar prices.

The impact on production due to the diversion of Brazil sugar producers to ethanol, may be partially offset by the responses in India and Thailand to the increased price of sugar.

The growth in the consumption of sugar is forecast to slowdown in the medium term, 1% per year over the outlook period compared with 1.5% during the previous decade<sup>15</sup>, due to an increase in the global awareness in health and the impact of high sugar diets on health and wellbeing (net of growth in consumption of sugar in developing countries) and the emergence of 'healthier' sugar substitutes, produced from other natural sources (such as Stevia, Yacon syrup, Coconut sugar, Honey, Maple syrup,

<sup>13</sup> ABARES Agricultural commodities Commodity forecasts and outlook March quarter 2019

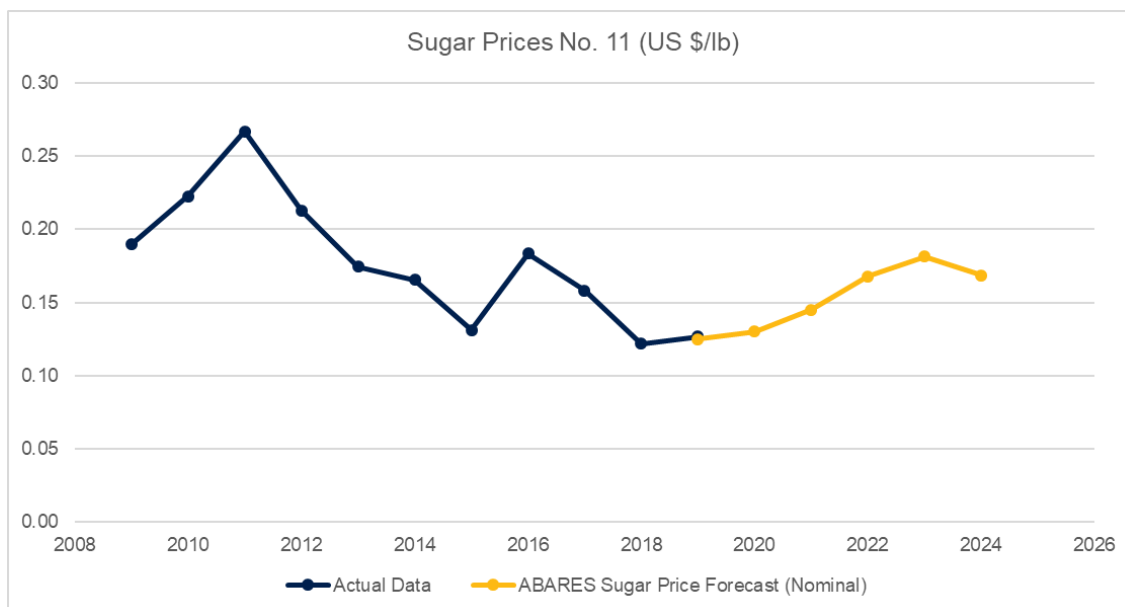
<sup>14</sup> ABARES Agricultural commodities Commodity forecasts and outlook March quarter 2019

<sup>15</sup> ABARES Agricultural commodities Commodity forecasts and outlook March quarter 2019

etc.). The introduction of sugar taxes globally is expected to slow down the growth in consumption and provide an incentive for food and beverage industries to reduce sugar content and diversify products.

Based on the above factors impacting production and consumption, ABARES has forecast the long and medium term price to increase from 13 cents per pound in 2018 to 15.1 cents per pound in 2024.

Prices are predicted to increase due to decreased production and increased consumption.



Source: Bloomberg, ABARES (2018) Agriculture commodity statistics

## 4.4 Conclusion

Whilst Mackay Sugar would benefit from a medium-term increase in raw sugar commodity prices, provided that foreign exchange fluctuations did not offset the potential increase, Mackay Sugar has challenges in respect of its key operating equipment and maintenance of significant items of plant, which requires budgeted capital expenditure in the order of approximately \$120 million over the next five years.

Mackay Sugar is exposed to volatility in the global price for raw sugar as well as foreign exchange rate fluctuations, and in turn, the factors which drive those fluctuations, as set out above.

Mackay Sugar's future financial performance is also impacted by Australian growing conditions, weather patterns, production abilities and efficiencies, industry regulations as well as domestic and international consumption.



## 5 Profile of Mackay Sugar

### 5.1 Background

#### 5.1.1 Overview

Mackay Sugar, an unlisted Australian public company, is Australia's second largest sugar milling company. It operates three mills located within a 25-kilometre ("**km**") radius of Mackay, North Queensland and a fourth located at Mossman, approximately 75km north of Cairns, North Queensland.

Mackay Sugar has a marketing division, owns a 25% interest in two sugar refining investments and has investments in other sugar related businesses, including in cane farming, sugar port facilities and sugar logistics.

#### 5.1.2 Seasonality

Due to its agricultural nature, Mackay Sugar's business is seasonal. With respect to the seasonality of the business, we note the following:

- Crushing at the mills generally commences in June and typically runs through to November ("**Crushing Season**");
- Although maintenance is carried out during the Crushing Season, this is typically minimal. The majority of Mackay Sugar's annual maintenance and capital works (i.e. capital expenditure) is undertaken during January through May (non crushing season);
- The length of the Crushing Season is impacted by several key factors, including:
  - The size of the crop to be crushed;
  - Mill performance in terms of crushing rates (i.e. the tonnes crushed per hour);
  - Mill availability during the Crushing Season; and
  - Amount of wet weather in Crushing Season.
- The level of mill performance and availability during the Crushing Season, is directly related to the state of the underlying milling assets (i.e. if the mill assets have been undermaintained mill performance and availability will be negatively impacted);
- Given the biological nature of sugar cane, as the season progresses the quality of the sugar cane (in terms of CCS) typically peaks during the middle of the season then declines significantly towards the end of the season. Accordingly, any extension of the Crushing Season, can significantly impact the marginal profitability of the business (on a per tonne basis);
- If the wet weather arrives early (i.e. at the end of the year), cane can remain unharvested and stood over until the next season, which has a significant financial impact on both the growers and the mill; and
- Underperformance and/or reduction in the availability of the mills during the Crushing Season has a significant impact on the profitability of the Mackay Sugar business, in the form of additional operating costs (which management estimate at approximately \$1 million per week) plus lost sugar revenue given the quality of the cane (in terms of CCS) significantly declines at the end of the Crushing Season.

Given the seasonal nature of the business, Mackay Sugar's revenues and cashflows reflect this for example:

- The vast majority of revenue is earned during the first half of the financial year; while
- The majority of maintenance and capital expenditure is incurred during the second half of the year (i.e. outside of the Crushing Season).

### **5.1.3 Importance to the Local and National Community and Economy**

As Australia's second largest sugar miller, Mackay Sugar forms an integral part of the Mackay economy, supporting 979 local growers which supply sugar cane to the mills operated by Mackay Sugar. Mackay Sugar provides job opportunities to the community employing over 630 people, which expands to approximately 940 people during Crushing Season.

A recent report published by Lawrence Consulting<sup>16</sup>, estimated that Mackay Sugar's:

- Contribution to local economy and employment accounted for 17% of the Mackay Regions gross regional product and 11% of employment; and
- Regional spending (i.e. consisting of goods and services purchases including cane, mill spend and worker wages) was in the range of \$535 million.

### **5.1.4 Evolution of Key Milling Assets**

The mills currently owned by Mackay Sugar were built and commenced operations during the period from 1883 to 1894.

Mackay Sugar was formed as a co-operative in 1988, when five formerly independent milling co-operatives in the Pioneer Valley (Marian, Racecourse, Cattle Creek, North Eton and Farleigh mills) merged and acquired Pleystowe Mill from CSR Limited.

The Cattle Creek and North Eton mills were subsequently closed, and Mackay Sugar was converted into an unlisted public company in July 2008.

In 2012, Mackay Sugar acquired the Mossman mill and in 2013 completed construction and commissioned the Racecourse cogeneration plant.

### **5.1.5 Evolution of Refining JV's and Other Sugar Related Investments**

On 27 February 1998, Mackay Sugar entered into a joint venture agreement to undertake sugar refining activities within the Australian and New Zealand markets. Mackay Sugar holds a 25% share in the joint venture, which extends for a period of 75 years and is operated through the following entities:

- The Sugar Australia Joint Venture ("**Sugar Australia JV**"), further discussed below;
- New Zealand Sugar Company Pty Ltd ("**NZSC**") further discussed below; and
- Oriana Shipping Co Pte Ltd ("**Oriana Shipping**"), a Singaporean registered company which operates a refined sugar transport vessel, exclusively for Sugar Australia. Mackay Sugar holds a 25% interest in this company.

Collectively, these businesses refine and market a range of liquid and crystal sugars and sweeteners for industrial markets, as well as branded product ranges for consumer markets and hold approximately 58% of the market share in Australia, and approximately 80% in New Zealand.

Wilmar Sugar Australia Limited and its related entities, hold the remaining 75% share in the joint venture.

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<sup>16</sup> Lawrence Consulting report, Economic Impact of the Queensland Sugar Manufacturing Industry, 2017/18

Mackay Sugar has a range of other cane farming, sugar port, sugar logistics and sugar-related businesses that are discussed in **Section 5.3**.

### 5.1.6 State of Mackay Sugar's Core Operating Equipment

Between 2003 and 2008, Mackay Sugar engaged a third-party provider to perform contracted maintenance on its mills. Management advised that the contractor was brought in to update and modernise maintenance systems.

In 2008, the maintenance function returned in-house.

Around 2010, the Board approved the construction of a cogeneration facility, which cost in excess of \$110 million to construct. In 2012, Mackay Sugar acquired the Mossman mill. Both investment projects were funded by further borrowings.

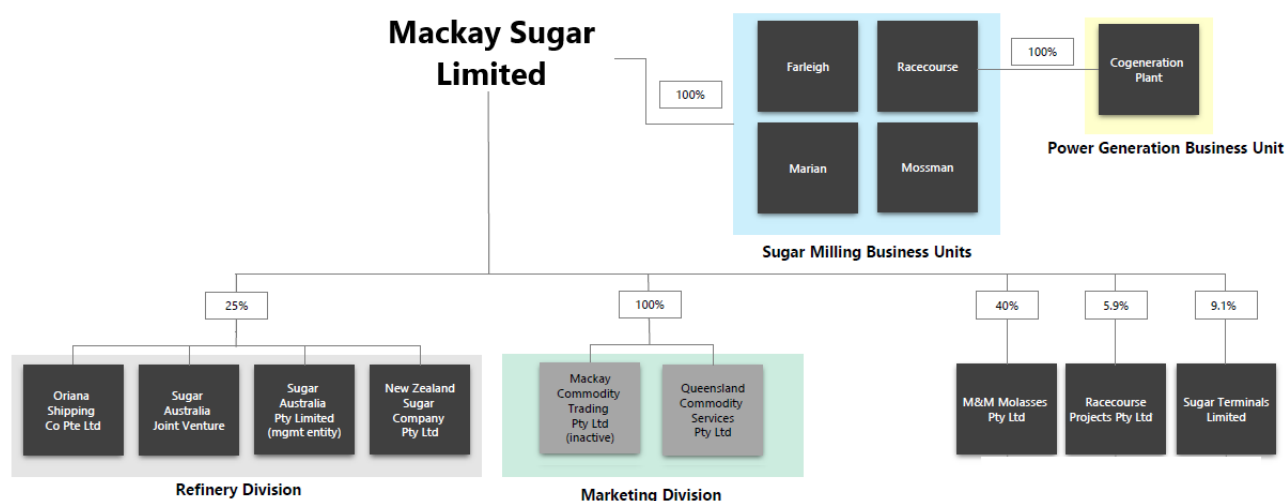
Management advised that the allocation of funding to these investment projects, together with losses recorded for the Mossman Mill around that time, resulted in a further lack of funding available for use in the necessary repair and maintenance of Mackay Sugar's core milling equipment.

The allocation of funding to alternative uses contributed to material underinvestment in Mackay Sugar's core milling equipment and transport infrastructure over an extended period and has caused a significant reduction in the operating performance of the mills, including greater planned and non-planned maintenance stoppages, reduced crushing rates, greater wastage, and an artificially longer Crushing Season (i.e. less efficiency and reduced sugar recovery).

The above has resulted in greater costs and less revenues and increasing debt levels for Mackay Sugar, as well as a fragile business which is in need of significant capital investment to ensure long term sustainability.

## 5.2 Group Structure

At the date of this Report, Mackay Sugar's Group Structure is as follows:



Source: Mackay Sugar

## 5.3 Operational Overview

### 5.3.1 Mills Overview

#### Farleigh Mill

The Farleigh Mill is situated 10 km north-west of Mackay and has been crushing cane since 1883. The mill has a maximum crushing capacity of 1.7 Mt of cane, and has averaged a crush rate of 480 tonnes per hour, over the past three years.

#### Racecourse Mill

The Racecourse Mill is situated 2km west of Mackay and has been in operation since 1889. The mill has a maximum crushing capacity of 1.7 Mt of cane, and has averaged a crush rate of 456 tonnes per hour, over the past three years.

The Racecourse Mill premises also encompasses one of the Sugar Australia JV refining plants, which on average produces 400,000 tonnes of refined white sugar (further discussed below).

#### Marian Mill

The Marian Mill is situated 25km west of Mackay and has been crushing cane since 1895. The mill is currently the highest producer of sugar in terms of volume in comparison to Mackay Sugar's other mills. It has a maximum crush capacity of 2.6 Mt of cane, and has averaged a crush rate of 666 tonnes per hour over the past three years.

#### Mossman Mill

The Mossman Mill is situated 75km north of Cairns and has been crushing cane since 1897. The mill has maximum crush capacity of 1.1 Mt of cane, and has averaged a crush rate of 319.7 tonnes per hour, over the past three years. Unlike the other Mills, which are serviced by rail lines, Mossman is serviced by predominantly road transport.

### 5.3.2 Milling Operations

The mills receive cane from growers primarily via Mackay Sugar's private rail network, which is crushed during a period of around 23 weeks between June and December each year. Mackay Sugar has 850 km of private rail network and associated infrastructure.

The crushed sugar cane is then sold either to the Sugar Australia JV for refining, or as bulk sugar to domestic or predominantly export markets via either Mackay Sugar's marketing division, QCS, or QSL (the former single desk).

Mackay Sugar also sells / uses the following by-products:

- **Molasses:** is a viscous by-product which is primarily used as an animal feed additive;
- **Mill Mud and Ash:** is a mixture of filter mud and ash, which is used by cane Growers as a soil fertiliser and conditioner; and
- **Bagasse:** is the fibrous pulp that remains after the sugar cane is crushed. Bagasse is used as a biofuel (i.e. is burned) in the production of energy (via the cogeneration facilities) which is used in powering the factory operations with excess electricity sold to the grid via the cogeneration facilities.

Mackay Sugar also generates electricity from its cogeneration plant at the Racecourse Mill. In 2017, the plant's annual power generation was 182 GWh. The plant uses the electricity generated to power the mill, any unused electricity is sold to Ergon Energy via a power purchase agreement.

## **Sugar Marketing**

With respect to Mackay Sugar's sugar marketing activities we note the following:

- Queensland Commodity Services Pty Ltd ("**QCS**"), the wholly owned subsidiary of Mackay Sugar, operates as the marketing division for Mackay Sugar;
- Historically:
  - Mackay Sugar sold 100% of its raw sugar to QCS under the Commodity Marketing Agreement.
  - Of Mackay Sugar's total raw sugar sales, the Grower Economic Interest ("**GEI**") represented approximately 63% and Miller Economic Interest ("**MEI**") represented approximately 37%;
  - QCS in turn sold raw sugar approximately 60% to 70% domestically to the Sugar Australia JV annually, while the balance of sugar produced by Mackay Sugar mills was sold for export to Queensland Sugar Limited ("**QSL**");
  - Sales to Sugar Australia were destined to be refined at Racecourse refinery; and
  - Of Mackay Sugar's Mossman region raw sugar production, QCS typically sold 100% to QSL.
- Future under the Grower Choice Legislation:
  - As previously discussed in **Section 4.2.5**, the Grower Choice Legislation, which was introduced in 2015 and comes into effect in Mackay for the 2019 Season, allows growers to market their respective GEI independently of the mill.
  - Prior to 2019 season, QCS marketed domestic sales and QSL marketed export sales. Of this, approximately 65% of the grower volume went to MSL's QCS and 35% went to QSL. QCS also markets 100% of the Miller Economic Interest. For the 2019 season onwards, Mackay Sugar growers have now exercised their rights to nominate a marketer for part or all of their GEI sugar.
  - The Grower Choice Legislation, has the potential to impact Mackay Sugar's ability to supply raw sugar under the Sugar Australia raw sugar supply contract if Growers currently supplying to Mackay Sugar elect to have the sugar in which they have an economic interest marketed by other entities. However, given the high percentage of sugar allocated to QCS for marketing (78%) this is not likely to be a risk in the near future.

## **Hedging Instruments**

Mackay Sugar, through QCS, manages its raw sugar price and foreign currency exposures under its raw sugar price risk management policy which authorises specified company officers to undertake various price and currency hedging strategies. Mackay Sugar hedges its raw sugar prices using a variety of hedging instruments including:

- Short Term Over the Counter ("**OTC**") products;
- Long Term OTC products;
- ICE derivatives; and
- Related currency hedges.

### 5.3.3 Sugar Australia Business

#### Overview

As previously discussed, the Sugar Australia business ("**Sugar Australia**") which operates under the Sugar Australia JV, manages the manufacture, transport, storage, marketing and distribution of refined sugar products in Australia.

Mackay Sugar has granted a lease of part of the Racecourse mill site upon which the Racecourse refinery has been constructed. Sugar Australia has also constructed a storage silo at the Mackay port and operates a refinery in Yarraville, Victoria and various other distribution facilities.

#### Raw Sugar Purchases

Mackay Sugar and Wilmar Australia supply raw sugar to Sugar Australia in accordance with a Joint Venture Agreement and sales contracts. The contract price of raw sugar purchases by Sugar Australia (sales by Mackay Sugar and Wilmar Australia) is denominated in USD and is determined by the price at which Mackay Sugar/Wilmar Australia hedges its sugar production in ICE No.11 sugar futures and related currency hedges.

On entering a contract to acquire raw sugar, Sugar Australia enters an opposing hedge to minimise exposure risk related to the raw sugar price.

#### Refined Sugar Sales

When agreeing to supply refined sugar to its customers, Sugar Australia negotiates a sale price based on an agreed margin (i.e. Sugar Australia does not bear pricing risk in the way that Mackay Sugar does).

### 5.3.4 NZSC Business

As previously discussed, the NZSC business operates under a shareholders agreement which is similar to the Sugar Australia joint venture agreement. It operates in the same manner as the Sugar Australia business, except for the fact that it primarily operates in the New Zealand and export markets.

### 5.3.5 Other Investments

#### Oriana Shipping

Oriana Shipping Co Pte Ltd ("**Oriana Shipping**"), a Singaporean registered company which operates a refined sugar transport vessel, exclusively for Sugar Australia. Mackay Sugar holds a 25% interest in this company

#### Investment in STL

STL is an Australian listed public company, predominantly owned by sugar cane growers and millers. STL owns and operates six bulk sugar terminals in Queensland which handle over 90% of the raw sugar produced in Australia. The terminals provide approximately 2.5 million tonnes of storage capacity and handle more than 4.6 million tonnes of commodities each year. STL holds 100-year leases with port authorities at each of the six terminals, with an option to extend leases for additional 100 years.

STL have two distinct classes of shares on issue, namely:

- **G Class Shares:** which are listed and trade on the NSX ("**National Stock Exchange**"); and
- **M Class Share:** the ownership which is restricted to Australian Sugar millers such as Mackay Sugar.

At the date of this report Mackay Sugar held approximately 25.1% of the STL M Class Shares on issue (equating to a 9.1% equity interest in STL).

In September 2015, MSL entered into an arrangement with One Tree Agriculture Pty Ltd ("**One Tree**") to monetise the income stream from its investment in STL, while continuing to hold the voting rights attached to the M Class Shares.

Under the arrangement, One Tree paid Mackay Sugar a capital sum (in the amount of \$26.5m) in exchange for the rights to the income stream from Mackay Sugar's M class shares in STL for a period of 8.6 years. At the end of that period (or earlier in certain scenarios), Mackay Sugar may re-acquire the rights to the income stream for a price determined by the prevailing STL share price at the time.

Mackay Sugar continues to be the registered owner of the STL shares and, as an active miller, will continue to exercise its voting rights in relation to its STL shareholding.

### **Racecourse Projects**

Mackay Sugar holds 5.9% of Racecourse Projects. Racecourse Projects owns and operates cane farms in the Mackay region.

### **M&M Molasses Pty Ltd**

Mackay Sugar hold a 40% interest in M&M Molasses Pty Ltd ("**M&M Molasses**"). M&M Molasses was established to jointly share molasses marketing costs with an unrelated miller. The operations and associated cashflows are immaterial to the broader Mackay Sugar business.

## **5.4 State of Equipment, Resultant Operational Performance and Requirement for Capital Expenditure**

Over the past decade, management contend that a number of commercial decisions have resulted in the allocation of capital to non-core projects, which has subsequently caused underinvestment in capital expenditure and mill maintenance. The key events during this period included:

- A reduction in maintenance budgets from around 2001;
- The acquisition of Mossman Mill in June 2012, for approximately \$25 million. Since acquisition, the Mossman Mill has failed to contribute positive cash flow to the broader Mackay Sugar business and has continued to require funds to operate in excess of the cash generated from operations. As previously discussed above, Mackay Sugar is currently divesting the Mossman Mill, for which no positive cash proceeds are expected to be realised; and
- Capital outlay relating to the construction of the Racecourse Cogeneration Plant in excess of \$110 million, which diverted a significant level of funding away from mill maintenance and capital expenditure.

Accordingly, Mackay Sugar's mill performance has significantly declined over recent years, leading to ongoing reliability issues and a compounding effect on overall profitability of the Mackay Sugar business.

As a result, this underinvestment in maintenance has contributed to Mackay Sugar's crushing rates, total tonnes crushed and sugar production continuously declining, at an increasing rate over the last four seasons.



## 5.5 History and Key Events

Key events since inception are summarised below:

| Mackay Sugar<br>History of Key Events |   |
|---------------------------------------|---|
| Date                                  | Milestone   |
| 1883 to 1894                          | Current mills owned by Mackay Sugar built/commenced operations - Pleystowe Mill (1872), Farleigh Mill (1883) Marian Mill (1885), Mossman Mill (1894) and Racecourse Mill (1889)   |
| 1988                                  | Mackay Sugar was formed as a co-operative when five formerly independent milling co-operatives in the Pioneer Valley (Marian, Racecourse, Cattle Creek, North Eton and Farleigh mills) merged and acquired Pleystowe Mill from CSR Limited            |
| 1989                                  | North Eton mill closed  |
| 1990                                  | Cattle Creek mill closed  |
| 2003                                  | Internal mill maintenance work outsourced to a third party provider with the aim of reducing maintenance expenses   |
| July 2008                             | Mackay Sugar Co-operative incorporated as a public unlisted company (i.e. Mackay Sugar Limited)   |
| 2010 – 2012                           | Construction of the Racecourse Cogeneration Plant   |
| Jun 2012                              | Mackay Sugar acquired Mossman Mill  |
| Oct 2012                              | Racecourse Cogeneration Plant commissioned  |
| 2012/2013                             | The allocation of funds to acquire Mossman Mill and construction of Racecourse Cogeneration Plant, limited the availability of capital to reinvest in the core milling operations   |
| 20 Mar 2013                           | \$50 Million of Corporate Notes issued to Corporate Noteholders with a five year investment term  |
| Sep 2015                              | Mackay Sugar entered an arrangement with One Tree Agriculture Pty Ltd to monetise the income stream from its 25.1% shareholding of M class shares in STL  |
| 24 May 2016                           | The boiler explosion at Marian Mill impacted the commencement of the 2016 crushing operations and significantly reduced the availability at the Marian Mill for a number of weeks.  |
| Aug 2016                              | Mackay Sugar appoint Corporate Advisor, Kidder Williams to review the Company's strategic funding initiatives and to assist the Board and senior management to formulate a range of funding options   |
| Feb 2017                              | Mackay Sugar Board investigate in the sale of the Racecourse Cogeneration Plant and other assets, implementing a \$2 per tonne grower contribution towards the operating costs, repair, improvement and maintenance of Mackay Sugar's infrastructure. |
| Oct 2017                              | No acceptable offers received for the sale of Racecourse Cogeneration Plant   |
| Oct 2017                              | Mackay Sugar formally commence the sale/recapitalisation process  |
| Dec 2017                              | Nine parties, five of which were domestic, submitted either Indicative Proposals or Expressions of Interests, including Nordzucker  |
| Jan 2018                              | Four parties advance to a formal due diligence process  |
| Feb 2018                              | Nordzucker and one other preferred bidder progressed into further detailed due diligence  |
| May 2018                              | One of the preferred bidders, withdrew from the sale/recapitalisation process due to inability to secure funding  |
| Jul 2018                              | Nordzucker signed exclusivity to proceed with the Proposed Transaction  |
| Jul - Dec 2018                        | Nordzucker continue due diligence, sign non-binding indicative offer and undertake discussions with Mackay Sugars Board, management and Mackay Sugar's senior lenders (i.e. Rabo Bank and National Australia Bank ("NAB"))                            |
| Dec – Jan 2019                        | Mackay Sugar and Nordzucker finalising Proposed Transaction documents including Share Subscription Agreement, Constitution and Warranties and Indemnities   |
| 8 Feb 2019                            | Share Subscription Agreement with Nordzucker signed by Mackay Sugar   |
| 31 July 2019                          | Proposed Transaction with Nordzucker expected to be implemented   |

Source: Mackay Sugar

## 5.6 Financial Performance

Mackay Sugar has a 31 May financial year-end. This timing is aligned with the commencement of the crushing season.

At the date of this Report, Mackay Sugar's financial statements for the year ended 31 May 2019 (i.e. FY19) had not been closed off nor audited. Consequently, we have adopted management accounts for the purpose of our analysis.

### 5.6.1 Independent Auditor's Report Emphasis of Matter – Going Concern

Since 2017, Mackay Sugar's auditors have issued audit reports that include an emphasis of matter in respect of Mackay Sugar continuing to trade as a going concern, and indicate that certain assets may need to be disposed of outside of the ordinary course of business.

In Mackay Sugar's most recent Half Year Independent Auditor's Review Report (in relation to the six month period ended 30 November 2018), the Independent Auditor stated that:

*"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."*

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## 5.6.2 Historical Financial Performance

Summarised below is the historical financial performance of Mackay Sugar for FY16(a) to FY18(a) as well as the six month period to 30 November 2018 ("**H1FY19(a)**") which has been normalised to remove the effects of one-off and non-recurring income and expenditure.

The results for H1FY19(a) are impacted by the seasonality of the business, as discussed in **Section 5.1.2**. Most significantly, revenues are generated predominantly in the first half of the year, with maintenance expenses (and capital costs) incurred predominantly in the second half of the year.

The information presented to the normalised EBIT level reflects the earnings of the core milling and marketing operations (including the Racecourse cogeneration plant).

| Mackay Sugar Consolidated<br>Financial Performance (\$ millions) |          |                |                |                |                |
|--|----------|----------------|----------------|----------------|----------------|
|  | Notes    | FY16(a)        | FY17(a)        | FY18(a)        | H1FY19(a)      |
| Tonnes cane milled (000's)                                       |          | 6,191          | 6,863          | 6,151          | 5,783          |
| Tonnes sugar produced (IPS)                                      |          | 863,434        | 856,127        | 795,756        | 808,153        |
| MSL average sugar price (AUD)                                    |          | 410            | 487            | 470            | 416            |
|  |          |                |                |                |                |
| Sugar sales  |          | 361.0          | 424.7          | 383.2          | 341.5          |
| Molasses sales   |          | 29.9           | 34.1           | 30.1           | 22.6           |
| Electricity sales  |          | 25.2           | 27.0           | 27.4           | 12.2           |
| Other revenue  |          | 1.0            | 8.7            | 3.8            | 4.4            |
| <b>Total revenue</b>   | <b>1</b> | <b>417.1</b>   | <b>494.6</b>   | <b>444.5</b>   | <b>380.7</b>   |
| YOY growth %   |          | n/m            | 18.6%          | -10.1%         | n/m            |
| Changes in inventories of finished goods                         |          | (0.5)          | (0.2)          | (2.0)          | 3.0            |
| Cost of sales  |          | (232.3)        | (281.1)        | (249.5)        | (217.4)        |
| <b>Gross profit</b>  | <b>2</b> | <b>184.3</b>   | <b>213.2</b>   | <b>193.1</b>   | <b>166.3</b>   |
| Margin %   |          | 44.2%          | 43.1%          | 43.4%          | 43.7%          |
| Revenue from non-operating activities                            |          | -              | -              | (0)            | -              |
| Maintenance expenses   |          | (45.8)         | (48.4)         | (50.7)         | (26.2)         |
| Operating expenses   |          | (80.8)         | (90.8)         | (84.5)         | (70.9)         |
| Administration expenses  |          | (44.2)         | (44.5)         | (45.4)         | (22.2)         |
| Distribution and marketing expenses                              |          | (6.4)          | (6.5)          | (8.3)          | (4.4)          |
| Other expenses   |          | (28.5)         | (5.4)          | (3.5)          | (52.2)         |
| Impairment loss  |          | 26.6           | 3.2            | 3.1            | 51.0           |
| <b>Total expenses</b>  | <b>3</b> | <b>(179.1)</b> | <b>(192.4)</b> | <b>(189.3)</b> | <b>(124.8)</b> |
| <b>Normalised EBITDA</b>   |          | <b>5.2</b>     | <b>20.8</b>    | <b>3.8</b>     | <b>41.5</b>    |
| Margin %   |          | 1.2%           | 4.2%           | 0.9%           | 10.9%          |
| Depreciation   | <b>4</b> | (16.4)         | (17.0)         | (16.6)         | (7.9)          |
| <b>Normalised EBIT</b>   | <b>5</b> | <b>(11.2)</b>  | <b>3.8</b>     | <b>(12.8)</b>  | <b>33.6</b>    |
| Margin %   |          | -2.7%          | 0.8%           | -2.9%          | 8.8%           |
|  |          |                |                |                |                |
| Share of profits of associate and joint ventures                 | <b>6</b> | 12.6           | 10.0           | 12.6           | 7.0            |
| <b>Normalised EBIT (incl. associates and joint ventures)</b>     |          | <b>1.4</b>     | <b>13.8</b>    | <b>(0.3)</b>   | <b>40.6</b>    |
| Normalisations   |          | (13.8)         | (35.4)         | (8.6)          | (51.0)         |
| <b>Reported EBIT</b>   |          | <b>(12.5)</b>  | <b>(21.6)</b>  | <b>(8.9)</b>   | <b>(10.5)</b>  |
| Margin %   |          | -3.0%          | -4.4%          | -2.0%          | -2.7%          |
| Finance revenue  |          | 1.0            | 0.7            | 0.7            | 0.5            |
| Finance costs  | <b>7</b> | (14.5)         | (12.4)         | (12.2)         | (6.4)          |
| <b>Reported NPBT</b>   | <b>8</b> | <b>(26.1)</b>  | <b>(33.4)</b>  | <b>(20.4)</b>  | <b>(16.4)</b>  |
| Margin %   |          | -6.2%          | -6.8%          | -4.6%          | -4.3%          |
| Income tax expenses  | <b>9</b> | -              | -              | -              | -              |
| <b>Reported NPAT</b>   |          | <b>(26.1)</b>  | <b>(33.4)</b>  | <b>(20.4)</b>  | <b>(16.4)</b>  |
| Margin %   |          | -6.2%          | -6.8%          | -4.6%          | -4.3%          |

Source: FY16(a) to FY18(a) Statutory Accounts; H1FY19(a) Statutory Accounts for the Half-year ended 30 November 2018 & Crowe Horwath Calculations

Notes:

1. **Total revenue:** Mackay Sugar derives the majority of its revenue from the sale of raw sugar produced from the milling of sugar cane during the Crushing Season which extends throughout the first half of the financial year (i.e. 1 June to 30 November). Under the current arrangement the sale of sugar, molasses and the value of fibre (i.e. the bagasse) are shared between the Growers and Mackay Sugar on the basis of approximately 63% Grower/37% Mackay Sugar. As a Condition Precedent of the Proposed Transaction, this basis will revert to the "CCS" cane payment formula, which rewards the Growers for producing higher sugar yield and content and rewards Mackay Sugar for milling efficiencies (refer Advantage E to the Proposed Transaction, as set out in **Section 1.7.1**).

As discussed above, total revenues are primarily driven by the total tonnes of sugar produced and the average sugar price (at which the sugar is marketed). Accordingly, Mackay Sugar is exposed to both sugar price risk and foreign exchange risk, given sugar is priced in USD.

As discussed in above, Mackay Sugar also sells raw sugar into the domestic market to the Sugar Australia JV, at contracted levels, and to the global market through QSL and its in-house marketing division, QCS.

In FY17, total revenue was impacted by a boiler explosion at the Marian Mill, resulting in lost production.

2. **Gross profit:** remained reasonably stable at approximately 43% to 44% over the analysis period.
3. **Total expenses:** predominantly comprised operating and maintenance expenses (including all factory, cane supply and employee expenses), as well as general administration costs.
4. **Depreciation:** comprises depreciation in relation to plant and equipment.
5. **Normalised EBIT:** for the core business was negative \$11 million to negative \$13 million in FY16(a) and FY18(a), and nominal in those periods after the inclusion of Mackay Sugar's share of profits of associates and joint ventures.
6. **Share of profits of associate and joint ventures:** this income primarily relates to distribution of profits and dividend income received from Mackay Sugar's investments in the Sugar Australia JV, NZSC and STL (which is presently passed through to One Tree Agriculture as discussed above).
7. **Finance costs:** reflects interest paid on the various forms of interest bearing debt held by Mackay Sugar, the largest facilities of which are held with Rabo Bank, NAB and the Corporate Notes.
8. **Reported NPBT:** Mackay Sugar reported a net loss in each financial year from FY16(a) to FY18(a). On an adjusted basis, FY17(a) is the only year that Mackay Sugar recorded minimal adjusted NPBT of circa \$2 million. For the full year FY19(f), management are forecasting a net loss.
9. **Income tax expense:** income tax has not been payable historically given Mackay Sugar has had tax losses available to offset against taxable income.

Summarised below are normalisation adjustments:

| Mackay Sugar Consolidated<br>Normalisation Adjustments (\$ millions) |       |         |         |         |           |
|--|-------|---------|---------|---------|-----------|
|  | Notes | FY16(a) | FY17(a) | FY18(a) | H1FY19(a) |
| Normalised EBIT (incl. associates and joint ventures)                |       | 1.4     | 13.8    | (0.3)   | 40.6      |
| <u>Normalisation adjustments</u>                                     |       |         |         |         |           |
| Revenue from non-operating activities                                | 1     | 0.1     | 0.0     | 0.3     | 0.0       |
| Other revenue  | 2     | 13.3    | 1.9     | 1.9     | 0.5       |
| Other expenses   | 3     | (0.6)   | 0.5     | (0.8)   | (0.5)     |
| Impairment loss  | 4     | (26.6)  | (37.8)  | (10.0)  | (51.0)    |
| Total normalisation adjustments                                      |       | (13.8)  | (35.4)  | (8.6)   | (51.0)    |
| Reported EBIT  |       | (12.5)  | (21.6)  | (8.9)   | (10.5)    |

Source: Mackay Sugar & Crowe Horwath Analysis

Notes:

- 1. Revenue from non-operating activities:** relates to profit on the sale of assets and a subsidiary, which we consider one-off in nature.
- 2. Other revenue:** primarily comprises of the net insurance revenue and associated expenses related to the boiler repairs due to the boiler explosion at the Marian Mill.
- 3. Other expenses:** relates to transactions costs incurred in the sale, financial trading losses and the reversal of one off transport costs accrued for as part of a dispute.
- 4. Impairment loss:** relates to an impairment loss on the investment held in the Sugar Australia JV and property, plant and equipment.

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## 5.7 Financial Position

Summarised below is the historical financial position of Mackay Sugar as at 30 November 2018, split by asset grouping

| Mackay Sugar Consolidated                         |       |                   |                 |              |                |                  |
|---|-------|-------------------|-----------------|--------------|----------------|------------------|
| Financial Position 30 November 2018 (\$ millions) |       |                   |                 |              |                |                  |
|   | Notes | Mills & Marketing | Non Core Assets | Mossman Mill | Debt           | MSL Consolidated |
| <b>Assets</b>                                     |       |                   |                 |              |                |                  |
| <b>Current assets</b>                             |       |                   |                 |              |                |                  |
| Cash and cash equivalents                         |       | 28.9              | -               | 0.8          | -              | 29.6             |
| Trade and other receivables                       |       | 122.7             | -               | 20.4         | -              | 143.1            |
| Other financial assets                            |       | 14.7              | -               | 3.1          | -              | 17.8             |
| Inventories                                       |       | 14.9              | -               | 1.4          | -              | 16.3             |
| Other assets                                      |       | 2.6               | -               | -            | -              | 2.6              |
| <b>Total current assets</b>                       |       | <b>183.8</b>      | <b>-</b>        | <b>25.6</b>  | <b>-</b>       | <b>209.4</b>     |
| <b>Non-current assets</b>                         |       |                   |                 |              |                |                  |
| Trade and other receivables                       |       | 1.2               | -               | 0.2          | -              | 1.4              |
| Other financial assets                            |       | 4.5               | -               | 0.9          | -              | 5.4              |
| Investments - equity & other                      | 1     | -                 | 111.4           | -            | -              | 111.4            |
| Property, plant and equipment                     |       | 249.0             | -               | 0.4          | -              | 249.4            |
| Investment properties                             |       | 3.1               | -               | -            | -              | 3.1              |
| <b>Total non-current assets</b>                   |       | <b>257.7</b>      | <b>111.4</b>    | <b>1.6</b>   | <b>-</b>       | <b>370.6</b>     |
| <b>Total assets</b>                               |       | <b>441.5</b>      | <b>111.4</b>    | <b>27.2</b>  | <b>-</b>       | <b>580.0</b>     |
| <b>Liabilities</b>                                |       |                   |                 |              |                |                  |
| <b>Current liabilities</b>                        |       |                   |                 |              |                |                  |
| Trade and other payables                          |       | 73.8              | -               | 15.4         | -              | 89.2             |
| Interest bearing liabilities                      | 2     | -                 | -               | -            | 226.4          | 226.4            |
| Other liabilities                                 |       | 0.5               | -               | -            | -              | 0.5              |
| Other financial liabilities                       |       | 1.8               | -               | -            | -              | 1.8              |
| Employee benefits                                 |       | 11.8              | -               | 1.5          | -              | 13.3             |
| <b>Total current liabilities</b>                  |       | <b>87.9</b>       | <b>-</b>        | <b>16.9</b>  | <b>226.4</b>   | <b>331.2</b>     |
| <b>Non-current liabilities</b>                    |       |                   |                 |              |                |                  |
| Interest bearing liabilities                      | 2     | -                 | -               | -            | 2.7            | 2.7              |
| Other liabilities                                 | 2     | 20.9              | -               | -            | 18.5           | 39.4             |
| Other financial liabilities                       | 2     | -                 | -               | -            | 27.9           | 27.9             |
| Employee benefits                                 |       | 2.0               | -               | 0.4          | -              | 2.4              |
| <b>Total non-current liabilities</b>              |       | <b>23.0</b>       | <b>-</b>        | <b>0.4</b>   | <b>49.1</b>    | <b>72.5</b>      |
| <b>Total liabilities</b>                          |       | <b>110.9</b>      | <b>-</b>        | <b>17.3</b>  | <b>275.6</b>   | <b>403.7</b>     |
| <b>Net assets</b>                                 |       | <b>330.6</b>      | <b>111.4</b>    | <b>9.9</b>   | <b>(275.6)</b> | <b>176.3</b>     |

Source: 30 November 2018 Statutory Accounts for the Half-year ended 30 November 2018, Mackay Sugar & Crowe Horwath Calculations

Based on Management projections provided, which reflect the seasonality of the business, we understand the expected net asset position of Mackay Sugar as at 31 May 2019 is in the vicinity of \$111 million. This is based on Management projections from 30 November 2018, in an environment where Mackay Sugar does not prepare monthly accounts. This amount will ultimately be determined as part of Mackay Sugar's financial audit for the year ending 31 May 2019, and is therefore subject to change, perhaps materially.

Notes:

- Investments – equity and other:** this balance primarily comprise of the investments held by Mackay Sugar in the Sugar Australia JV, NZSC and STL; and
- Debt and Interest Bearing Liabilities:** these balances primarily consist of bank loans, Corporate Notes issued and unsecured notes, lease liabilities as well as other liabilities (further detailed in Section 10.9).

Summarised below is the consolidated historical financial position of Mackay Sugar as at 31 May 2016, 2017, 2018 and as at 30 November 2018:

| <b>Mackay Sugar Consolidated<br/>Financial Position (\$ millions)</b> |              |                  |                  |                  |                  |
|---|--------------|------------------|------------------|------------------|------------------|
|   | <b>Notes</b> | <b>31-May-16</b> | <b>31-May-17</b> | <b>31-May-18</b> | <b>30-Nov-18</b> |
| <b>Assets</b>   |              |                  |                  |                  |                  |
| <b>Current assets</b>   |              |                  |                  |                  |                  |
| Cash and cash equivalents   | <b>1</b>     | 32.4             | 18.3             | 14.8             | 29.6             |
| Trade and other receivables   | <b>2</b>     | 28.0             | 33.1             | 21.7             | 143.1            |
| Other financial assets  | <b>3</b>     | 0.5              | 12.0             | 15.7             | 17.8             |
| Inventories   | <b>4</b>     | 14.5             | 14.7             | 13.0             | 16.3             |
| Assets held-for-sale  |              | 0.0              | 0.1              | -                | -                |
| Other assets  |              | 0.2              | 0.9              | 0.5              | 2.6              |
| <b>Total current assets</b>   |              | <b>75.6</b>      | <b>78.9</b>      | <b>65.6</b>      | <b>209.4</b>     |
| <b>Non-current assets</b>   |              |                  |                  |                  |                  |
| Trade and other receivables   | <b>2</b>     | 1.7              | 1.1              | 0.5              | 1.4              |
| Other financial assets  | <b>3</b>     | 0.6              | 3.0              | 4.5              | 5.4              |
| Investments - equity & other  | <b>5</b>     | 162.9            | 124.0            | 111.6            | 111.4            |
| Property, plant and equipment   | <b>6</b>     | 310.6            | 312.3            | 304.9            | 249.4            |
| Investment properties   | <b>7</b>     | 2.2              | 3.1              | 3.1              | 3.1              |
| <b>Total non-current assets</b>                                       |              | <b>477.9</b>     | <b>443.5</b>     | <b>424.6</b>     | <b>370.6</b>     |
| <b>Total assets</b>   |              | <b>553.5</b>     | <b>522.4</b>     | <b>490.2</b>     | <b>580.0</b>     |
| <b>Liabilities</b>  |              |                  |                  |                  |                  |
| <b>Current liabilities</b>  |              |                  |                  |                  |                  |
| Trade and other payables  | <b>8</b>     | 34.0             | 62.8             | 45.1             | 89.2             |
| Interest bearing liabilities  | <b>9</b>     | 58.5             | 174.7            | 162.7            | 226.4            |
| Other liabilities   | <b>10</b>    | 0.8              | 0.9              | 3.8              | 0.5              |
| Other financial liabilities   | <b>3</b>     | 12.6             | 4.9              | 0.4              | 1.8              |
| Employee benefits   |              | 4.9              | 4.9              | 10.5             | 13.3             |
| <b>Total current liabilities</b>                                      |              | <b>110.8</b>     | <b>248.2</b>     | <b>222.5</b>     | <b>331.2</b>     |
| <b>Non-current liabilities</b>  |              |                  |                  |                  |                  |
| Interest bearing liabilities  | <b>9</b>     | 159.3            | 4.4              | 3.0              | 2.7              |
| Other liabilities   | <b>10</b>    | 19.0             | 18.2             | 29.5             | 39.4             |
| Other financial liabilities   | <b>3</b>     | 33.1             | 26.9             | 27.5             | 27.9             |
| Employee benefits   |              | 9.0              | 8.4              | 2.8              | 2.4              |
| <b>Total non-current liabilities</b>                                  |              | <b>220.4</b>     | <b>57.9</b>      | <b>62.8</b>      | <b>72.5</b>      |
| <b>Total liabilities</b>  |              | <b>331.2</b>     | <b>306.1</b>     | <b>285.2</b>     | <b>403.7</b>     |
| <b>Net assets</b>   |              | <b>222.3</b>     | <b>216.3</b>     | <b>205.0</b>     | <b>176.3</b>     |

Source: FY16(a) to FY18(a) Statutory Accounts; 30 November 2018 Statutory Accounts for the Half-year ended 30 November 2018

Notes:

- Cash and cash equivalents:** this balance fluctuates during the year, typically peaking towards the end of the Crushing Season. We have further discussed the treatment of this balance in the context of our valuation analysis in **Section 10.8**.
- Trade and other receivables:** predominantly consist of amounts owed by customers for sugar and molasses. Due to the seasonality of the business the results are significantly different between the November half year results and the financial year ended May.
- Other financial assets and liabilities:** these balances include hedge assets and liabilities (held and managed by QCS), and the STL share subscription liability.
- Inventories:** comprises of consumable stock (such as spare parts, feed stock for cogeneration plant, etc) and molasses.



5. **Investments – equity and other:** this balance primarily comprises of the investments held by Mackay Sugar in the Sugar Australia JV, NZSC and STL.

6. **Property, plant and equipment:** primarily consists of land, buildings, cane railway, locomotives, bins, boiler stations, crushing station, processing plants, cogeneration plant and work in progress.

We note that this balance includes the Pleystowe site. Although the site no longer operates a cane milling function, the site provides a range of support functions to the broader Mackay Sugar business, including rolling stock maintenance, rail network monitoring and coordination, administration and IT support. Management advise that it would not sell the site separate to the business. Accordingly, we have included this site in our assessment of the core milling and marketing business. In other words, we have not treated this site or the other former mill sites as a surplus asset.

7. **Investment properties:** this balance relates to old mill sites and adjoining properties at each mill site. Management advised that the properties are typically used by Mill Employees, are attached to the mill sites and would not be sold separate to the business.

8. **Trade and other payables:** primarily includes balances owed to cane growers and providers of consumables to Mackay Sugar. Due to the seasonality of the business the results are significantly different between the November half year results and the financial year ended May.

9. **Interest bearing liabilities:** these balances primarily consist of bank loans, Corporate Notes issued and unsecured notes as well as lease liabilities. H1FY19 was the first time that inventory financing was required.

10. **Other Liabilities:** this primarily includes deferred grant proceeds from regional community projects, office of clean energy and clean technology investment, as well as deferred cane payments relating to the \$2 per tonne grower contribution.

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## 5.8 Cash Flow Statement

Summarised below are the historical cash flows of Mackay Sugar for FY16(a), FY17(a), FY18(a) and H1FY19(a):

| Mackay Sugar Consolidated<br>Cash flows (\$ millions)                |          |               |               |               |               |
|--|----------|---------------|---------------|---------------|---------------|
|  | Notes    | FY16(a)       | FY17(a)       | FY18(a)       | H1FY19(a)     |
| <b>Cash flow from operating activities</b>                           |          |               |               |               |               |
| Receipts from sugar sales and other sales                            |          | 457.5         | 541.1         | 500.2         | 257.2         |
| Payments to cane suppliers   |          | (281.3)       | (295.1)       | (284.1)       | (175.4)       |
| Payments to other suppliers and employees                            |          | (189.1)       | (201.5)       | (205.1)       | (138.1)       |
| Distributions received from associated entities                      |          | 6.7           | 6.7           | 10.6          | 3.5           |
| Interest received  |          | 0.6           | 0.3           | 0.4           | 0.2           |
| Other revenue  |          | 9.5           | 4.5           | 10.1          | 6.6           |
| Finance costs  |          | (14.7)        | (12.4)        | (12.1)        | (7.1)         |
| <b>Net cash provided by operating activities</b>                     | <b>1</b> | <b>(10.9)</b> | <b>43.6</b>   | <b>20.0</b>   | <b>(53.0)</b> |
| <b>Cash flow from investing activities</b>                           |          |               |               |               |               |
| Purchase of financial assets – shares                                |          | (0.7)         | -             | -             | -             |
| Payments for purchases of property, plant and equipment              | <b>2</b> | (28.6)        | (22.8)        | (12.3)        | (3.4)         |
| Distributions received / (contributions made) to associated entities |          | (8.1)         | 3.6           | 2.0           | 7.8           |
| Proceeds on sale of property, plant and equipment                    |          | 0.2           | 0.0           | 0.0           | 0.0           |
| Proceeds on sale of property held for sale                           |          | -             | -             | 0.3           | -             |
| Proceeds on sale of subsidiary                                       |          | -             | -             | 0.1           | -             |
| <b>Net cash used in investing activities</b>                         |          | <b>(37.2)</b> | <b>(19.2)</b> | <b>(10.0)</b> | <b>4.4</b>    |
| <b>Cash flow from financing activities</b>                           |          |               |               |               |               |
| Proceeds from STL share subscription                                 |          | 26.5          | -             | -             | -             |
| Proceeds from interest bearing activities                            | <b>3</b> | 104.4         | 62.5          | 37.3          | 125.8         |
| Repayment of interest bearing activities                             |          | (76.6)        | (92.5)        | (43.0)        | (60.6)        |
| Lease liability payments   |          | (0.3)         | (0.3)         | (0.3)         | (0.3)         |
| (Increase)/decrease in growers' loans                                |          | (0.8)         | 0.8           | 0.5           | 0.4           |
| Decrease in interest bearing deposits                                |          | (0.1)         | (0.1)         | (0.0)         | (0.0)         |
| Decrease in selected-term unsecured notes                            |          | (2.7)         | (9.0)         | (8.0)         | (1.8)         |
| <b>Net cash provided by (used in) financing activities</b>           |          | <b>50.4</b>   | <b>(38.6)</b> | <b>(13.5)</b> | <b>63.5</b>   |
| Net increase/(decrease) in cash and cash equivalents                 |          | 2.3           | (14.2)        | (3.5)         | 14.9          |
| Cash and cash equivalents at the beginning of the year               |          | 30.1          | 32.4          | 18.3          | 14.8          |
| <b>Cash and cash equivalents at the end of the year</b>              |          | <b>32.4</b>   | <b>18.3</b>   | <b>14.8</b>   | <b>29.6</b>   |

Source: FY16(a) to FY18(a) Statutory Accounts; H1FY19(a) Statutory Accounts for the Half-year ended 30 November 2018

Notes:

- 1. Net cash provided by operating activities:** although Mackay Sugar has recorded positive operating cash flow in two of the prior three financial years (i.e. FY17(a) and FY18(a)), this surplus has been broadly absorbed by payments for property plant and equipment (refer to note 2) and the repayment of interest bearing liabilities.
- 2. Payments for purchases of property, plant and equipment:** which relate to stay-in-business capital expenditure including Marian boiler works in FY16 and FY17.
- 3. Proceeds from interest bearing activities:** primarily relates to a seasonal financing facility provided by the banks and QSL, loaned against Mackay Sugar's sugar stocks and debtors or under a sale and buyback agreement.

## 5.9 Ownership

### 5.9.1 Current Share Classes and Rights

With respect to Mackay Sugar's issued equity at the date of this Report, we note the following:

- Mackay Sugar has two distinct classes of shares on issue, namely Voting Shares and Investment Shares;
- Both Voting Shares and Investment Shares are held by growers;
- Under the current Mackay Sugar Constitution, only Growers can hold or be issued Voting Shares;
- Investment Shares are typically held by Growers, Former Growers and other Permitted Shareholders;
- Voting Shareholders have the right to attend general meetings of Mackay Sugar and vote at those meetings, however no rights to dividends or distributions of capital; and
- Investment Shareholders have the right to attend general meetings, receive dividends and distributions of capital, however do not have the right to vote.

### 5.9.2 Shares Outstanding

Summarised below are Mackay Sugar's largest shareholders based on share registry analysis provided by management as at 12 June 2019 (based on holding of either class of shares described above):

| Mackay Sugar<br>Top 10 Largest Shareholders  |   |       |                       |                |
|--|---|-------|-----------------------|----------------|
| Rank   | Shareholder   | Notes | Shares<br>outstanding | % Total        |
| 1  | Mossman Sugar Company Limited                             | 1     | 6,676,742             | 3.14%          |
| 2  | Davies. G. R.   |       | 2,457,275             | 1.15%          |
| 3  | Blackburn. G. J. & Mrs R.                                 |       | 1,896,716             | 0.89%          |
| 4  | Bugeja J & J Pty Ltd ATF J & J Bugeja & Sons Family Trust |       | 1,293,117             | 0.61%          |
| 5  | Jansen. A. & A.M. and Jansen. D.A. & P.D.                 |       | 1,266,140             | 0.59%          |
| 6  | Pratt AD & Pratt Pty Ltd ATF AD Pratt & Pratt Unit Trust  |       | 1,193,535             | 0.56%          |
| 7  | Burston. M. as Trustee for the Mai Burston Family Trust   |       | 1,065,637             | 0.50%          |
| 8  | Pastega. JP & Mrs H ATF J & H Pastega Family Trust        |       | 987,874               | 0.46%          |
| 9  | Pratt. A. N.  |       | 884,140               | 0.42%          |
| 10   | Dunn. D.W. & Mrs J.K.                                     |       | 861,066               | 0.40%          |
| <b>Top 10 largest shareholders</b>           |   |       | <b>18,582,242</b>     | <b>8.73%</b>   |
| Investment Shares held by other shareholders |   |       | 194,297,088           | 91.27%         |
| Voting Shares total                          |   |       | 801                   | 0.00%          |
| <b>Total shares outstanding</b>              |   |       | <b>212,880,131</b>    | <b>100.00%</b> |

Source: Shareholder registry 12 June 2019

Notes:

1. Mossman Sugar Company relates to the issue of Investment Shares in Mackay Sugar as part of the purchase price for the Mossman Mill.

### 5.9.3 Overview of Recent Share Trading

Summarised below are the prices and volumes at which Mackay Sugar's known transactions in Investment Shares have traded during the period 1 January 2017 to 6 June 2019:

| Mackay Sugar                             |               |                  |              |
|--|---------------|------------------|--------------|
| Recent Investment Share Trading Activity |               |                  |              |
| Date                                     | Share Price   | Volume Traded    |              |
|  |               | \$ Total         | %            |
| 06-Jun-19                                | 0.05          | 73,039           | 0.03%        |
| 19-Mar-19                                | 0.10          | 360,440          | 0.17%        |
| 28-Feb-19                                | 0.10          | 40,000           | 0.02%        |
| 26-Apr-18                                | 0.10          | 53,478           | 0.03%        |
| 22-Feb-18                                | 0.10          | 577,864          | 0.27%        |
| 29-Jun-17                                | 0.15          | 332,407          | 0.16%        |
| 27-Jun-17                                | 0.30          | 254,720          | 0.12%        |
| 24-Feb-17                                | 0.15          | 50,000           | 0.02%        |
|  |               | <b>1,741,948</b> | <b>0.82%</b> |
| <b>Low</b>                               | <b>\$0.05</b> |                  |              |
| <b>High</b>                              | <b>\$0.30</b> |                  |              |
| <b>VWAP</b>                              | <b>\$0.14</b> |                  |              |

Source: Mackay Sugar

As highlighted by the summary above, there has been limited trading in Mackay Sugar's Investment Shares in respect of known transactions in the period February 2017 to June 2019 conducted at a wide range of transaction prices. There may also have been inter-family transfers, the details of which are not disclosed.

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## 6 Profile of Nordzucker

### 6.1 Overview

Nordzucker, an unlisted public company Headquartered in Braunschweig, Germany, is Europe's second largest sugar producer, and also a producer of bioethanol and animal feed from sugar beet. Unlike Mackay Sugar, which processes sugar cane, Nordzucker processes sugar beet.

Similar to Mackay Sugar, Nordzucker is a grower-owned sugar business, with 180 years' experience in the sugar industry.

Nordzucker is a substantial business with a sizeable corporate infrastructure and expertise in sugar facility engineering. It has approximately 3,200 employees across 18 production sites and refineries located across Europe, and is able to process 17Mt of beet, producing 2.7Mt of sugar and approximately 130 ML of ethanol. Over the last five years, Nordzucker has generated an average revenue equivalent to AUD \$2.74 Billion.

As summarised below, Nordzucker has cash balances in the order of € 395 million.

Nordzucker's customers include the confectionery industry as well as producers of dairy and bakery products. Approximately 80% of sugar produced by Nordzucker is sold to customers in the food production industry, while the remaining 20% is sold directly to retail customers under the brand names SweetFamily and Dansukker.

### 6.2 Ownership and Board of Directors

Table below summaries the shareholders percentages of Nordzucker:

| Mackay Sugar<br>Nordzucker shareholdings |                |
|--|----------------|
| Shareholders                             | Percentage     |
| Nordzucker Holdings                      | 83.8 %         |
| Gesellschaft mit beschränkter Haftung    | 11.1 %         |
| Other                                    | 5.1 %          |
| <b>Total</b>                             | <b>100.0 %</b> |

Source: Capital IQ

Nordzucker is managed by an Executive Board made up of four key members:

- Chief Executive Officer – Dr Lars Gorissen;
- Chief Financial Officer – Alexander Bott;
- Chief Operating Officer – Alex Aumüller; and
- Chief Marketing Officer – Erik Bertelsen.

The Executive Board reports to the Supervisory board which is made up of 15 members, some of whom also sit on the board of the shareholding companies of Nordzucker.

## 6.3 Operations

Nordzucker's operations are spread across the European region. The figure below summarises Nordzucker's operations:



Source: Nordzucker website

## 6.4 Recent Transactions

Nordzucker has made three strategic acquisitions in the last 10 years. Targets ranged from sugar producers to a sugar retailer, as summarised in the table below:

| Mackay Sugar<br>Nordzucker Recent Transactions |   |   |                   |
|--|---|---|-------------------|
| Date   | Target                                    | Target Description  | Size/Stake        |
| 5-Apr-15                                       | August Töpfer Zuckerhandels GmbH & Co. KG | Offers sugar and sugar products trading and packaging services. | 25.0 %            |
| 27-Sep-09                                      | Sugar Partners                            | Engages in the production and marketing of sugar                | 50.0 %            |
| 20-Feb-09                                      | Nordic Sugar A/S                          | Produces and supplies sugar in the North European market        | Aud \$1.4B / 100% |

Source: Capital IQ

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## 6.5 Key Financials<sup>17</sup>

Below are a series of tables summarising Nordzucker's recent financial performance, financial position, and cash flows based on financial statements posted on its website.

| Nordzucker (EURm)                                 |       |       |       |
|---|-------|-------|-------|
| Earnings and Returns - Year Ended 28 February     |       |       |       |
|   | 2017  | 2018  | 2019  |
| Revenues  | 1,708 | 1,650 | 1,354 |
| EBITDA  | 226   | 227   | 9     |
| EBITDA Margin                                     | 13%   | 14%   | 1%    |
| EBIT  | 131   | 154   | (58)  |
| EBIT Margin                                       | 8%    | 9%    | n/m   |
| Consolidated net income before minority interests | 99    | 118   | (36)  |
| Return on sales                                   | 6%    | 7%    | -2%   |
| RoCE  | 9%    | 10%   | -4%   |
| Return on equity                                  | 7%    | 8%    | n/m   |

Source: Nordzucker Annual Report

| Nordzucker (EURm)                       |       |       |       |
|---|-------|-------|-------|
| Balance Sheet Figures As at 28 February |       |       |       |
|   | 2017  | 2018  | 2019  |
| Total Asset                             | 2,117 | 2,183 | 2,010 |
| Equity                                  | 1,375 | 1,429 | 1,316 |
| Equity ratio                            | 65%   | 66%   | 66%   |
| Debt capital                            | 742   | 754   | 694   |
| Capital employed                        | 1,500 | 1,511 | 1,541 |
| Financial liabilities                   | 12    | 4     | 4     |
| Cash and cash equivalents               | 322   | 307   | 266   |

Source: Nordzucker Annual Report

| Nordzucker (EURm)   |       |       |      |
|---|-------|-------|------|
| Cash flow and Investments - Year Ended 28 February                |       |       |      |
|   | 2017  | 2018  | 2019 |
| Cash flow from operating activities                               | 268   | 219   | 10   |
| Cash flow from investing activities                               | (119) | (169) | 11   |
| Free Cash flow  | 149   | 50    | 21   |
| Investment in property, plant and equipment and intangible assets | 84    | 89    | 105  |

Source: Nordzucker Annual Report

The decline in financial performance, over the period highlighted above, was attributed to decline in global sugar prices.

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<sup>17</sup> <https://www.nordzucker.com>



## **7 Expected Impacts if the Proposed Transaction Proceeds**

### **7.1 Operational Impacts**

#### **7.1.1 Immediate Impacts**

If the Proposed Transaction proceeds following Shareholder approvals, the following will have occurred, or will occur, within around 30 days:

- All of the conditions precedent will have occurred, or are expected to occur or be waived, including:
  - Ceasing to own the Mossman Mill;
  - 100% reversion to the CCS cane payment formula (currently around 92% of Growers have already accepted the change); and
  - Agreement with Mackay Sugar's lenders in respect of steps to be taken to affect a reduction in Mackay Sugar's financial burden;
- Existing Voting Shares and Investment Shares will be converted to Ordinary Shares, providing each class of existing Shareholder expanded rights (aside from the Preference Dividends payable to Nordzucker);
- Nordzucker will have contributed \$60 million in capital, in return for the CPS;
- A Shareholder Loan Agreement and Subordination Agreement for up to another \$60 million between Nordzucker and Mackay Sugar will be in an agreed form;
- Repayment/redemption of the Corporate Notes for \$25 million (following the agreed discount of the face value of the notes by 50%);
- 50% of the outstanding grower contributions of around \$18.8 million, being around \$9.4 million, will have been repaid, with the balance to be repaid within 12 months; and
- Mackay Sugar will have a new Board of Directors, and the management, corporate, balance sheet and engineering support of Nordzucker.

#### **7.1.2 Subsequent Impacts**

Subsequent to this, the following will occur:

- Implementation of a major maintenance and capital expenditure program (primarily funded by Nordzucker's capital injections of up to \$120 million and senior bank capital expenditure facility), to commence following the 2019 Crushing Season, being either in December 2019 or early January 2020. Under the Subscription Agreement, the program is expected to extend to 2024;
- The remaining 50% of the outstanding grower contributions, being another \$9.4 million, will be repaid 12 months later;
- Ongoing capital expenditure and other debt financing support to be provided by Mackay Sugar's senior lenders;
- Nordzucker will determine the management structure to support the initiatives around capital, maintenance and agronomic support; and
- The first \$33.33 million in Mackay Sugar dividends will be paid to Nordzucker.

### 7.1.3 Ongoing Impacts

The expected impacts of the above are:

- Improved rate, reliability, recovery and profitability of the Mackay Sugar's milling operations (whilst the Board expects it will take three to five years to see substantial improvements, it does expect to see continuous improvements once each year's maintenance and capital works are complete);
- Realignment of growers' economic rewards to cane volumes and underlying sugar cane quality, and Mackay Sugar's economic rewards to milling efficiency (by virtue of the change in the cane payment formula);
- A greater level of certainty for a number of key stakeholders of Mackay Sugar (such as growers, debt funders, suppliers, etc.) as to the immediate and longer-term future of the Mackay Sugar business; and
- Improved grower crop yields and quality, leading to improved grower and Mackay Sugar profitability.

## 7.2 Financial Models

### 7.2.1 Overview

In managing the business and formulating the Proposed Transaction, Mackay Sugar and its advisors have prepared various financial models.

We have considered and analysed these models and performed our own research, analysis and sensitivities in respect of key variables.

We were provided with two types of base financial models, being the:

- "Base Case" models, which reflect the expected financial performance and cash flows of Mackay Sugar if the Proposed Transaction was to proceed ("**Base Financial Model - Nordzucker Case**" / "**Nordzucker Case**"); and
- "Status Quo" models, which reflect the expected financial performance and cash flows of Mackay Sugar if the Proposed Transaction did not proceed ("**Base Financial Model - Status Quo Case**" / "**Status Quo Case**")

### 7.2.2 Financial Model used if the Proposed Transaction proceeds

#### **Base Financial Model – Nordzucker Case**

With respect to the base financial model for the Nordzucker Case, we note

- The forecast period was for five-years to FY24;
- All revenues, expenses and costs were projected on a "real" as opposed to a nominal basis (i.e. based on current purchasing power / in terms of today's dollars);
- All cash flows associated with the operation of the Mossman mill were excluded, on the basis that the Mossman mill is to be divested prior to the Proposed Transaction;
- Sugar prices were projected in AUD/tonne (on a real basis);
- The assumed impact of the capital and management attention of Nordzucker is that Mackay Sugar will return to historical operating efficiencies over the five year forecast period (i.e. in respect of crushing rates, mill availability, sugar recovery, etc);

- Cash flows are forecast to an EBIT level, with adjustments for capital expenditure and income tax (albeit that no income tax is expected to be paid over the forecast period due to Mackay Sugar's accumulated tax losses) and non-cash items, such as depreciation, to arrive at an ungeared forecast free cash flow; and
- The model did not consider an adjustment for working capital absorption beyond FY20.

### **Adjusted Financial Model – Nordzucker Case**

In analysing and adjusting the financial model ("**Adjusted Financial Model**") for the purpose of this Report, we:

- Performed research and analysis in respect of nominal forecast sugar prices in US cents/pound and nominal AUD/USD exchange rates;
- Converted the real revenue projections into nominal revenue projections, based on AUD/IPS tonne prices and projected volumes of sugar sales;
- Converted expenses and other costs into nominal amounts;
- Allowed for working capital cash flows;
- Remodelled accounting and tax depreciation;
- Assumed that Mackay Sugar will pay tax (however we considered the value of its accumulated tax losses separately); and
- Removed cashflows associated with Mackay Sugar's assets that we valued separately to the core milling and marketing operations (i.e. relating to the equity investments in joint ventures and associated companies).

Based on our analysis, we consider there is a reasonable basis to adopt the Adjusted Financial Model for the Nordzucker Case (i.e. assuming that the Proposed Transaction was to proceed) for the purpose of this Report under Regulatory Guide 170.

Our key assumptions regarding sugar prices and foreign exchange rates detailed below:

| Key Assumptions      |           |           |           |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Financial Year Ended | 31-May-20 | 31-May-21 | 31-May-22 | 31-May-23 | 31-May-24 |
| US cents per lb      | 13.00     | 14.50     | 16.79     | 18.12     | 16.84     |
| AUD/USD              | 0.71      | 0.75      | 0.75      | 0.76      | 0.75      |

Source: ABARES & Bloomberg Consensus Forecasts

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Based on the above, below is the Adjusted Financial Model for the Nordzucker Case, for Mackay Sugar's core milling and marketing business only:

| Mackay Group - Core Operations<br>Forecast Cash Flows (\$millions) |                   |                   |                   |                   |                   |                |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Financial Year Ended<br>Season                                     | 31-May-20<br>2019 | 31-May-21<br>2020 | 31-May-22<br>2021 | 31-May-23<br>2022 | 31-May-24<br>2023 | Terminal yr    |
| Cane crushed (Mt)  | 5,000,000         | 5,300,000         | 5,350,000         | 5,400,000         | 5,450,000         |                |
| IPS volumes  | 696,277           | 735,465           | 749,187           | 763,027           | 770,092           |                |
| Revenue  | 323.5             | 357.6             | 411.4             | 444.5             | 429.3             | 440.0          |
| Growth %   |                   | 10.5%             | 15.1%             | 8.0%              | -3.4%             | 2.5%           |
| COGS   | (186.2)           | (209.4)           | (240.6)           | (257.5)           | (246.0)           | (252.1)        |
| <b>Gross profit</b>  | <b>137.4</b>      | <b>148.1</b>      | <b>170.7</b>      | <b>187.0</b>      | <b>183.3</b>      | <b>187.9</b>   |
| Margin %   | 42.5%             | 41.4%             | 41.5%             | 42.1%             | 42.7%             | 42.7%          |
| Transport, mill & operating costs                                  | (58.2)            | (50.5)            | (49.3)            | (49.3)            | (50.9)            | (52.2)         |
| Maintenance  | (45.4)            | (46.5)            | (47.7)            | (48.9)            | (50.1)            | (51.4)         |
| Overheads  | (47.7)            | (43.6)            | (44.3)            | (45.5)            | (46.6)            | (47.8)         |
| <b>Expenses</b>  | <b>(151.3)</b>    | <b>(140.6)</b>    | <b>(141.4)</b>    | <b>(143.7)</b>    | <b>(147.6)</b>    | <b>(151.3)</b> |
| Other income   | 2.3               | 1.8               | 1.8               | 1.9               | 1.9               | 2.0            |
| <b>EBITDA</b>  | <b>(11.7)</b>     | <b>9.3</b>        | <b>31.2</b>       | <b>45.2</b>       | <b>37.6</b>       | <b>38.5</b>    |
| Margin %   | -3.6%             | 2.6%              | 7.6%              | 10.2%             | 8.7%              | 8.7%           |
| Depreciation & amortisation  | (15.0)            | (16.5)            | (17.8)            | (18.8)            | (19.5)            | (10.6)         |
| <b>EBIT</b>  | <b>(26.7)</b>     | <b>(7.2)</b>      | <b>13.3</b>       | <b>26.4</b>       | <b>18.1</b>       | <b>27.9</b>    |
| Margin %   | -8.2%             | -2.0%             | 3.2%              | 5.9%              | 4.2%              | 6.3%           |
| <u>Add / (less):</u>   |                   |                   |                   |                   |                   |                |
| Depreciation   | 15.0              | 16.5              | 17.8              | 18.8              | 19.5              | 10.6           |
| Capex - Mills  | (14.4)            | (16.8)            | (15.1)            | (4.9)             | (7.3)             | (6.8)          |
| Capex - Cane Supply  | (7.9)             | (4.6)             | (1.9)             | (3.4)             | (2.4)             | (1.5)          |
| Capex - Other  | (4.1)             | (5.5)             | (5.2)             | (3.5)             | (2.4)             | (2.3)          |
| Working capital requirement  | (0.2)             | (1.2)             | (1.9)             | (1.2)             | 0.5               | (0.4)          |
| Tax  | -                 | -                 | (2.8)             | (7.1)             | (5.1)             | (8.4)          |
| <b>Net cash flows (post tax)</b>                                   | <b>(38.3)</b>     | <b>(18.9)</b>     | <b>4.2</b>        | <b>25.1</b>       | <b>20.9</b>       | <b>19.1</b>    |

Source: Management & Crowe Horwath Calculations

In respect of the above:

- Revenues grow and fluctuate in response to increases in the volumes of IPS sugar produced, as well as in response to expected movements in raw sugar prices and foreign exchange rates;
- EBITDA and EBIT margins generally improve as revenues grow and operating efficiencies are realised following commencement of the capital and maintenance programs, cognisant of expected movements in raw sugar prices and foreign exchange rates; and
- Net cash flows are negative in the earlier periods, reflecting the higher initial level of capital expenditure and lower financial performance at this time, and grow over the forecast period.

For the avoidance of doubt, our valuation addresses the timings associated with the seasonality of Mackay Sugar's operations and cash flows.

### 7.2.3 Financial Model used if the Proposed Transaction does not proceed

Refer to discussion in **Section 8.3**.

### 7.3 Share Classes and Rights

Under the Proposed Transaction:

- Existing Voting Shares and Investment Shares will be converted to Ordinary shares;
- Nordzucker will be issued CPS which will be equal to 70% of the share capital of Mackay Sugar's expanded equity capital on Completion;
- Accordingly, for a period of time, two distinct classes of shares will be on issue, namely Ordinary Shares and CPS;
- Nordzucker will be paid the first \$33.33 million in dividends (the Preference Dividends), which equates to an effective preference of \$10 million in dividends that would otherwise have been payable to the pre-existing Shareholders (i.e. \$33.33 million x 30% = \$10 million). The Ordinary Shareholders will not receive dividends until this limit has been reached; and
- Once the total Preference Dividends are fully paid, Nordzucker's CPS will automatically convert to Ordinary Shares and all Shareholders will have an equal right to dividends payable from that point onwards.

For the avoidance of doubt, Ordinary Shares, will have the following rights:

- **Voting:** To attend meetings of Mackay Sugar's shareholders, and vote at those meetings;
- **Income:** To receive dividends pro-rata to their shareholdings, once the Preference Dividends are fully paid; and
- **Capital:** To receive distributions of capital, including in the event of a windup of the Company.

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## 8 Expected Impacts if the Proposed Transaction Does Not Proceed

### 8.1 Background

As previously discussed, Mackay Sugar and its advisors have spent the past two and a half years exploring a number of options to recapitalise the business, including a global search to either identify and attract a cornerstone investor or sell the Mackay Sugar business.

Although Mackay Sugar has been provided with a number of non-binding offers/expressions of interest throughout the well-publicised process, it culminated in Mackay Sugar finding a single acceptable offer/investor, in the form of Nordzucker and the Proposed Transaction.

As the process to recapitalise the business progressed, the financial position of the Mackay Sugar business has continued to deteriorate, with Mackay Sugar's reported net assets having decreased each year since 31 May 2016, from approximately \$222 million at that time, to \$176 million as at 30 November 2018. During this time, Mackay Sugar has recorded impairments on its investment in the Sugar Australia JV as well as its fixed assets, has been restricted by its debt burden, and has breached its banking covenants. During this time, Mackay Sugar's auditors have also issued audit reports that include an emphasis of matter in respect of Mackay Sugar continuing to trade as a going concern, and indicating that certain assets may need to be disposed of outside of the ordinary course of business.

As discussed in **Section 5.7**, based on management projections provided, which reflect the seasonality of the business, we understand the expected net asset position of Mackay Sugar as at 31 May 2019 is in the vicinity of \$111 million. This is based on management projections from 30 November 2018, in an environment where Mackay Sugar does not prepare monthly accounts. If there are further impairment losses this amount will ultimately be determined as part of Mackay Sugar's financial audit for the year ending 31 May 2019, and is therefore subject to change, perhaps materially.

As at the date of this Report, the Directors advise us that there are no known recapitalisation alternatives to the Proposed Transaction.

### 8.2 Operational and Financial Impacts

In undertaking our analysis and discussions with the Board and key members of Mackay Sugar management, we understand that the following is likely to occur if the Proposed Transaction does not proceed:

- Continued underperformance of Mackay Sugar's mills, likely with increased stoppages, reduced recoveries and a resultant reduction in financial performance (other things being equal);
- Continued deterioration in Mackay Sugar's core milling assets;
- A loss of confidence from Mackay Sugar's debt providers, being Rabo Bank, NAB and Corporate Noteholders;
- A reduction in available cane crop over time (i.e. to crush), due to a loss in grower confidence, which may result in growers "fencing off" their crop (i.e. not harvesting their crop) and/or seeking alternative means to produce income (either on-farm or off-farm);
- The likely closure of one of the three Mackay-based mills should the total cane available to crush (in the Mackay region) fall below a critical level, or if forced by Mackay Sugar's lenders;
- Although some cost savings will be realised with the closure of one of the mills, the existing fixed costs and infrastructure (such as the cane railway network) will remain. This in turn is expected to increase the total cost of production, on a per tonne basis;

- A continued lack of available capital, to restore and maintain the existing core milling assets, leading to further decline in mill performance in terms of sugar recovery, availability, etc.; and
- Likely further impairments against the assets of Mackay Sugar and potential inability for the entity to continue to operate as a going concern.

### 8.3 Financial Model

The financial model provided for the Status Quo Case was constructed on the same basis as the financial model provided for the Nordzucker Case. Likewise, our analysis of and adjustments to this model were on the same basis as for the Nordzucker Case, as set out in **Section 7.2.2** and **Section 7.2.3**.

Notwithstanding, the key differences between the Adjusted Financial Model for the Status Quo Case and the Adjusted Financial Model for the Nordzucker Case are:

- Total cane crushed tonnages (and total IPS volumes) are lower under the Status Quo Case in financial years ended 31 May 2022 through 31 May 2024 which is due to the model assuming milling capacity constraints given the different capital expenditure profile. Consequently, revenues are lower under the Status Quo Model;
- Continuation of the PRS cane payment formula (compared to the CCS Cane payment formula under the Nordzucker Case), which increases the cost of goods sold;
- Higher transport, mill and operating costs, and a different capital expenditure profile; and
- Continuation of business as is under the Status Quo Case, in the absence of the implementation of the Proposed Transaction.

For the avoidance of doubt, the Adjusted Financial Model for the Status Quo Case assumes that the Mossman Mill is sold and does not contribute to future cash flows, consistent with the existing sale process with FNM. Notwithstanding, there is risk that this transaction does not proceed to completion.

Summarised below are the resultant cash flows of the Adjusted Financial Model for the Status Quo Case:

| Mackay Group - Core Operations<br>Forecast Cash Flows (\$millions) |           |                |                |                |                |                |                |
|--|-----------|----------------|----------------|----------------|----------------|----------------|----------------|
| Financial Year Ended   | 31-May-19 | 31-May-20      | 31-May-21      | 31-May-22      | 31-May-23      | 31-May-24      | Terminal yr    |
| Season   | 2018      | 2019           | 2020           | 2021           | 2022           | 2023           |                |
| Cane crushed (Mt)  |           | 5,000,000      | 5,300,000      | 5,300,000      | 5,300,000      | 5,300,000      |                |
| IPS volumes  |           | 696,905        | 729,507        | 729,507        | 729,507        | 729,507        |                |
| Revenue  |           | 323.8          | 351.8          | 397.5          | 421.9          | 403.4          | 413.5          |
| Growth %   |           |                | 8.6%           | 13.0%          | 6.1%           | -4.4%          | 2.5%           |
| COGS   |           | (190.9)        | (216.0)        | (245.3)        | (260.5)        | (249.1)        | (255.4)        |
| <b>Gross profit</b>  |           | <b>132.9</b>   | <b>135.8</b>   | <b>152.2</b>   | <b>161.4</b>   | <b>154.3</b>   | <b>158.2</b>   |
| Margin %   |           | 41.0%          | 38.6%          | 38.3%          | 38.3%          | 38.2%          | 38.2%          |
| Transport, mill & operating costs                                  |           | (59.5)         | (55.1)         | (56.5)         | (57.9)         | (59.3)         | (60.8)         |
| Maintenance  |           | (47.7)         | (48.9)         | (50.1)         | (51.3)         | (54.7)         | (56.0)         |
| Overheads  |           | (42.9)         | (44.0)         | (45.1)         | (46.2)         | (47.4)         | (48.6)         |
| <b>Expenses</b>  |           | <b>(150.1)</b> | <b>(148.0)</b> | <b>(151.7)</b> | <b>(155.4)</b> | <b>(161.4)</b> | <b>(165.4)</b> |
| Other income   |           | 1.8            | 1.8            | 1.8            | 1.9            | 1.9            | 2.0            |
| <b>EBITDA</b>  |           | <b>(15.3)</b>  | <b>(10.4)</b>  | <b>2.3</b>     | <b>7.8</b>     | <b>(5.1)</b>   | <b>(5.3)</b>   |
| Margin %   |           | -4.7%          | -3.0%          | 0.6%           | 1.9%           | -1.3%          | -1.3%          |
| Depreciation & amortisation  |           | (14.9)         | (16.1)         | (16.8)         | (17.6)         | (18.5)         | (9.4)          |
| <b>EBIT</b>  |           | <b>(30.1)</b>  | <b>(26.5)</b>  | <b>(14.5)</b>  | <b>(9.8)</b>   | <b>(23.6)</b>  | <b>(14.7)</b>  |
| Add / (less):  |           | -9.3%          | -7.5%          | -3.7%          | -2.3%          | -5.9%          | -3.6%          |
| Depreciation   |           | 14.9           | 16.1           | 16.8           | 17.6           | 18.5           | 9.4            |
| Capex - Mill   |           | (4.8)          | (5.9)          | (6.9)          | (4.6)          | (6.8)          | (6.1)          |
| Capex - Cane Supply  |           | (2.6)          | (1.6)          | (0.9)          | (3.2)          | (2.2)          | (1.3)          |
| Capex - head office  |           | (1.3)          | (1.9)          | (2.4)          | (3.3)          | (2.3)          | (2.0)          |
| Working capital requirement  |           | (0.2)          | (1.0)          | (1.6)          | (0.9)          | 0.6            | (0.4)          |
| Tax  | 30.0%     | -              | -              | -              | -              | -              | -              |
| <b>Net cash flows (post tax)</b>                                   |           | <b>(24.3)</b>  | <b>(20.8)</b>  | <b>(9.5)</b>   | <b>(4.1)</b>   | <b>(15.8)</b>  | <b>(15.1)</b>  |

Source: Crowe Horwath calculations



In respect of the above:

- Tonnes of cane crushed, revenues and gross profits are lower under the Status Quo Case (as compared to the Nordzucker case) given the different capital expenditure profile discussed above;
- Revenues grow and fluctuate in response to increases in the volumes of IPS sugar produced, as well as in response to expected movements in raw sugar prices and foreign exchange rates;
- Expenses are higher, associated with supporting the ageing assets; and
- Net cash flows are projected to remain negative throughout the projection period.

Summarised below is an illustrative reconciliation of the key differences between the Status Quo Case compared to the Nordzucker Case:

| Mackay Group - Core Operations   |       |                   |                   |                   |                   |                   |
|--|-------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Cash Flows Reconciliation - Status Quo Case v Nordzucker Case (\$millions) |       |                   |                   |                   |                   |                   |
| Financial Year Ended Season  | Notes | 31-May-20<br>2019 | 31-May-21<br>2020 | 31-May-22<br>2021 | 31-May-23<br>2022 | 31-May-24<br>2023 |
| <b>Net cash flows (post tax) - Status Quo Case</b>                             |       | <b>(24.3)</b>     | <b>(20.8)</b>     | <b>(9.5)</b>      | <b>(4.1)</b>      | <b>(15.8)</b>     |
| Revenue - Increase/(Decrease)  | 1     | (0.3)             | 5.8               | 13.9              | 22.6              | 25.8              |
| COGS - (Increase)/Decrease   | 2     | 4.7               | 6.6               | 4.7               | 3.0               | 3.1               |
| Operating Expenses - (Increase)/Decrease                                       | 3     | (1.2)             | 7.3               | 10.3              | 11.8              | 13.7              |
| Other income - (Increase)/Decrease   |       | 0.4               | -                 | -                 | -                 | -                 |
| Capex - (Increase)/Decrease  | 4     | (17.6)            | (17.5)            | (12.1)            | (0.8)             | (0.8)             |
| Working capital requirement - (Increase)/Decrease                              |       | 0.0               | (0.2)             | (0.3)             | (0.3)             | (0.1)             |
| Tax - (Increase)/Decrease  | 5     | -                 | -                 | (2.8)             | (7.1)             | (5.1)             |
| <b>Net cash flows (post tax) - Nordzucker Case</b>                             |       | <b>(38.3)</b>     | <b>(18.9)</b>     | <b>4.2</b>        | <b>25.1</b>       | <b>20.9</b>       |
| <b>Variance: Status Quo Case v Nordzucker Case - Positive/(Negative)</b>       |       | <b>(14.0)</b>     | <b>1.9</b>        | <b>13.7</b>       | <b>29.1</b>       | <b>36.7</b>       |

Source: Crowe Horwath calculations

Notes:

1. The increase in revenue under the Nordzucker Case in financial years ended 31 May 2021 through 31 May 2024 is due the expected efficiencies and increase in cane crushed tonnages and total IPS volumes, when compared to the Status Quo Case.
2. Similar to the movement in revenue, the decline in COGS under the Nordzucker Case is due to the change to the CCS Cane payment formula (under the Nordzucker Case).
3. The decline in operating expenses under the Nordzucker Case is also related to improved operating performance associated with higher quality milling assets under the Nordzucker Case.
4. The movement in the capital expenditure ("Capex") under the Nordzucker Case reflects the different capital expenditure profile when compared to the Status Quo Case (i.e. the investment in Mackay Sugar's core milling equipment).
5. The increase in the tax in financial years ended 31 May 2022 through 31 May 2024, reflect the positive earnings forecast in these years (i.e. which incur tax payable --refer **Section 10.2.3**) under the Nordzucker Case, when compared to negative earnings projected under the Status Quo Case.

## **8.4 Resultant Courses of Action**

Due to the negative expected cash flow profile of Mackay Sugar should the Proposed Transaction not proceed (as set out above), and considering the factors discussed above, there are two likely outcomes should the Proposed Transaction not proceed, being that:

- If the current debt providers withdraw long-term support, the business is likely to be placed into External Administration; or
- If the current debt providers continue to provide long-term support to Mackay Sugar, the business is likely to undergo significant restructuring, with a view to attempting to trading through its difficulties. Consequently, Mackay Sugar will continue to face the operational and financial impacts discussed in **Section 8.2**.

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## 9 Valuation Methodology

### 9.1 Overview

The best determinant of value is the price at which the business or a comparable business or an equity interest in that business has been bought or sold in an arm's length transaction. In its absence, estimates of value are made using methodologies that infer value from other available evidence.

In order to calculate the fair market value of shares in Mackay Sugar, we have considered the following generally accepted valuation methodologies.

The values determined in this Report are consistent with the concept of fair market value, modified for specific requirements of Regulatory Guide 111 (for example, in respect of how control premiums and minority discounts are to be applied). Fair market value is the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length.

Fair market value does not incorporate any buyer-specific special value. Buyer-specific special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special (synergistic) value that they expect to realise from the acquisition to the seller.

### 9.2 Asset Based Methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- Net tangible assets;
- Orderly realisation of assets; and
- Liquidation of assets.

The **net assets method** is based on the value of the assets of the business less certain liabilities, at book values, adjusted to market value.

The **orderly realisation of assets method** estimates fair market value by determining the amount that would be distributed to shareholders assuming the company is wound up in an orderly manner realising a reasonable market value for assets.

The **liquidation method** is similar to the orderly realisation of assets method except for the fact that the liquidation method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable, not actively trading or a significant proportion of a company's assets are liquid.

### 9.3 Market Based Methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value and valuation metrics of comparable companies. Market based methods include:

- Capitalisation of maintainable earnings;
- Analysis of a company's recent share trading history; and
- Industry specific methods.

The **capitalisation of maintainable earnings method** estimates fair market value by multiplying the company's future maintainable earnings by an appropriate capitalisation multiple. An appropriate earnings multiple is derived from price earnings multiples and market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable and comparable companies have similar cost structures and growth profiles.

The **most recent share trading history** provides strong evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

**Industry specific methods** estimate market value using industry benchmarks. These methods generally provide less persuasive evidence on market value of a company, as they may not account for company specific factors. Industry specific methods are generally only used as a cross check to the primary valuation methodology.

## 9.4 Discounted Cash Flow ("DCF") Method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence (ideally for a period of three to five years for a going concern business). The discounted cash flow method is commonly used to value early stage companies or projects with a finite life.

## 9.5 Selection of Valuation Approach and Methodologies

### Overview

In selecting our valuation approach and methodologies, we considered:

- The availability of forecast information in respect of Mackay Sugar's core sugar milling and marketing operations;
- The availability of an independent valuation of the Sugar Australia joint venture (to which we overlaid our own analysis, assumptions and calculations);
- Financial information in respect of Mackay Sugar's other investments;
- Mackay Sugar's debt and debt like items;
- Discussions with management in respect of the likely course of action if the Proposed Transaction does not proceed;
- The volatility of sugar commodity prices (in US cents per pound) and foreign exchange rate forecasts; and
- The requirement for significant investment in Mackay Sugar's capital equipment.

### Approach

In valuing the shares in Mackay Sugar post-implementation of the Proposed Transaction (i.e. assuming the Proposed Transaction proceeds), we adopted a sum of the parts valuation, being an aggregation of the various businesses, investments and residual liabilities of the Company. This valuation was undertaken on a going concern basis.

In valuing the shares in Mackay Sugar pre-implementation of the Proposed Transaction (i.e. under the assumption the Proposed Transaction does not proceed), we performed a sum of the parts valuation, in the same manner that we did for the post-implementation scenario. This valuation was also undertaken on a going concern basis. We also considered a net assets methodology, again on a going concern basis. Furthermore, we also considered the impact that a realisation of Mackay Sugar's assets may have on the net assets valuation.

Whilst there have been some historical trades of Investment Shares over the past few years, those trades do not reflect the circumstances of the Proposed Transaction. Additionally, there is insufficient trading in those shares for those trades to be a relevant indicator of value in any event. Accordingly, we did not consider the prices at which Investment Shares have historically traded to represent fair market value for an Investment Share as at the Valuation Date.

### **Methodologies**

In applying the sum of the parts valuation, we adopted the following methodologies in valuing each of the component parts:

- **Core milling and marketing operations (including the cogeneration plant):** for the post-implementation valuation, a DCF methodology, due to the expected initial investments in capital expenditure and maintenance in the earlier periods which result in negative cash flows, followed by positive earnings and cash flows, and also due to the availability of forecast information. We also adopted a DCF methodology for the pre-implementation valuation (as well as the net assets methodologies discussed above);
- **Sugar Australia JV:** review, analysis and amendment of a DCF valuation performed by an independent consultant to Mackay Sugar. This methodology was relevant due to the positive earnings and cash flows of the Sugar Australia JV, and availability of forecast information;
- **NZSC:** a capitalisation of future maintainable earnings valuation, on the basis that NZSC has generated relatively consistent earnings historically;
- **STL M Class Shares:** analysis of and adjustment to the recent share trading history in STL G Class shares, which trade on the NSX;
- **Other investments:** based on net asset methodologies, due to the limited earnings of these underlying investments, their asset intensive nature and small size;
- **Tax losses in respect of the post-implementation valuation:** we attributed nil value to Mackay Sugar's accumulated tax losses on our low valuation scenario, and calculated the NPV of the future expected benefits associated with the utilisation of the losses on our high valuation scenario. The tax losses have no value under the pre-implementation valuation as there are no projected earnings with which to utilise the tax losses;
- **Surplus cash and other assets:** on the basis that Mackay Sugar is seeking additional capital, we consider all cash to be required by the business, and none of the cash to be surplus. We also considered the existence of other surplus assets;
- **Debt and debt-like items:** we investigated and analysed each component as set out below, including NPV analysis where appropriate; and
- **Other liabilities:** we investigated and analysed the situation surrounding the CPS dividends, the sale of the Mossman mill and other actual and potential contingent liabilities, including NPV analysis where appropriate.

In determining Mackay Sugar's equity interest in its various joint venture and other investments, we considered its level of control over each as well as the marketability of each investment and adopted relevant discounts for lack of control and lack of marketability.

In performing the above, we calculated the value of 100% of the equity in Mackay Sugar on a controlling basis.

For the post-implementation valuation, we then considered the level of control and marketability of a 30% interest in Mackay Sugar (which the Shareholders will hold should the Proposed Transaction be implemented) and applied relevant discounts for lack of control and lack of marketability in determining the value of the 30% interest on a minority basis should the Proposed Transaction proceed. In order to avoid double counting of any control or marketability discounts, we considered the investment level discounts already made when we performed adjustments at the Mackay Sugar level.

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## 10 Valuation of Mackay Sugar – post Proposed Transaction (Nordzucker Case)

### 10.1 Overview

Based on the intended timing of the Proposed Transaction, we adopted a valuation date of 31 May 2019 for the purpose of this Report.

The values determined in this Report are consistent with the concept of fair market value, being the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length.

Fair market value does not incorporate any buyer-specific special value. Buyer-specific special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special (synergistic) value that they expect to realise from the acquisition to the seller.

The variables adopted in this Report are interdependent and together result in a valuation conclusion that in our opinion is reasonable having regard to our stated definition / premise of value, valuation scope, date and purpose, and results of applicable cross-checks. Accordingly, it is not appropriate to consider changing any variable(s) in isolation.

Whilst there have been some historical trades of Investment Shares over the past few years, those trades do not reflect the circumstances of the Proposed Transaction. Additionally, there is insufficient trading in those shares for those trades to be a relevant indicator of value in any event. Accordingly, we did not consider the prices at which Investment Shares have historically traded to represent fair market value for an Investment Share as at the Valuation Date.

### 10.2 Core Milling and Marketing Operations

#### 10.2.1 Site Visit - Mackay Region Mills

As part of our broader valuation process, we visited each of the Mackay Region mill sites, held discussions with key members of management (i.e. the mill manager of each mill) and walked through each mill (witnessing the state of various milling equipment) accompanied by key members of management.

#### 10.2.2 Methodology

We adopted a DCF methodology as our primary methodology in calculating the enterprise value of the core milling and marketing operations (including the cogeneration plant) of Mackay Sugar as at the Valuation Date. The DCF methodology estimates value by discounting a business' future cash flows to their present value. This methodology is appropriate for a going concern business where a projection of future cash flows can be made with a reasonable degree of confidence for a period of three to five years, or for the remaining term of a finite project. We consider the forecasts prepared by management, coupled with our adjustments to same, to be appropriate for this purpose.

Application of this methodology involves:

- Adopting a set of cash flow forecasts usually for a minimum period of three to five years;
- Calculating a terminal value for the cash flows beyond the forecast period (usually based on either a multiple of earnings or an appropriate growth rate into perpetuity); and
- Performing a discounted cash flow calculation on the forecast cash flows and terminal value, based on an appropriate discount rate, to calculate the NPV.



It is important to match an appropriate discount rate to the correct level of cash flows adopted in order to calculate either an enterprise value or an equity value. We adopted pre-debt, post-tax, nominal cash flows and a post-tax nominal Weighted Average Cost of Capital ("**WACC**") discount rate to calculate the enterprise value of the Core Milling and Marketing Operations on a controlling basis.

Since the cash flows adopted were on a controlling basis, so too was the calculated enterprise value.

On the basis that the Core Milling and Marketing Operations generate cash flows on a seasonal basis (as previously discussed in **Section 5.1.2**), with the majority of revenue is earned during the first half of the financial year (i.e. during the Crushing Season) while the majority of the capital expenditure and maintenance expenses are incurred during the second half of the financial year, we split each forecast year into two periods, and adopted mid period discounting for each period.

### 10.2.3 Cash Flows

In determining the cash flows to adopt for the purpose of the valuation, we note:

- Analysed management's annual cash flow forecasts for FY20(f) through FY24(f). With respect to management's forecasts, we note:
  - All revenues, expenses and costs were projected on a "real" as opposed to a nominal basis (i.e. based on current purchasing power / in terms of today's dollars);
  - All cash flows associated with the operations of the Mossman Mill were excluded, on the basis that the Mossman Mill was to be divested prior to the Proposed Transaction;
  - Sugar prices were projected in AUD/tonne (on a real basis);
  - The assumed impact of the funds and Nordzucker management's intention is that Mackay Sugar will return to historical operating efficiencies over the five year forecast period (i.e. in respect of crushing rates, mill availability, sugar conversion, etc);
  - Cash flows are forecast to an EBIT level, with adjustments for capital expenditure and income tax (albeit that no income tax was forecast to be paid over the forecast period due to Mackay Sugar's accumulated tax losses) as well as non-cash items, such as depreciation, to arrive at an ungeared forecast free cash flow; and
  - The model did not consider an adjustment for working capital absorption beyond FY20.
- Adjusted management's forecasts to reflect nominal cash flows to an EBIT level, based on our own research and analysis as well as information supplied by Management and their financial advisors, in respect of key growth drivers and expectations in relation to costs and revenues (refer **Section 7.2.2**). Our key assumptions regarding sugar prices and foreign exchange rates detailed below:

| Key Assumptions      |           |           |           |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|
| Financial Year Ended | 31-May-20 | 31-May-21 | 31-May-22 | 31-May-23 | 31-May-24 |
| US cents per lb      | 13.00     | 14.50     | 16.79     | 18.12     | 16.84     |
| AUD/USD              | 0.71      | 0.75      | 0.75      | 0.76      | 0.75      |

Source: US cents per pound - ABARES & AUD/USD - Bloomberg Consensus Forecasts

- Given the seasonality of the Mackay Sugar business (previously discussed in **Section 5.1.2**), we split management's annual forecasts into six-month periods (for each financial year) and discounted the cash flows separately (for each six-month period);

- In order to determine an ungeared level of cash flows for the purpose of the valuation, we adjusted our recalculated EBIT for:
  - Remodelled depreciation;
  - Expected capital expenditure;
  - Movements in working capital; and
  - Tax, which was based on an assessment of Mackay Sugar's taxable income, which was in turn based on EBITDA less estimated tax depreciation (i.e. we subtracted tax on a normal commercial basis, to enable enterprise value comparisons and cross checks, and valued the tax losses separately).

As set out and explained in **Section 7.2**, summarised below are the resultant cash flows we adopted:

| Mackay Group - Core Operations    |                   |                   |                   |                   |                   |                |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Forecast Cash Flows (\$millions)  |                   |                   |                   |                   |                   |                |
| Financial Year Ended Season       | 31-May-20<br>2019 | 31-May-21<br>2020 | 31-May-22<br>2021 | 31-May-23<br>2022 | 31-May-24<br>2023 | Terminal yr    |
| Cane crushed (Mt)                 | 5,000,000         | 5,300,000         | 5,350,000         | 5,400,000         | 5,450,000         |                |
| IPS volumes                       | 696,277           | 735,465           | 749,187           | 763,027           | 770,092           |                |
| Revenue                           | 323.5             | 357.6             | 411.4             | 444.5             | 429.3             | 440.0          |
| Growth %                          |                   | 10.5%             | 15.1%             | 8.0%              | -3.4%             | 2.5%           |
| COGS                              | (186.2)           | (209.4)           | (240.6)           | (257.5)           | (246.0)           | (252.1)        |
| <b>Gross profit</b>               | <b>137.4</b>      | <b>148.1</b>      | <b>170.7</b>      | <b>187.0</b>      | <b>183.3</b>      | <b>187.9</b>   |
| Margin %                          | 42.5%             | 41.4%             | 41.5%             | 42.1%             | 42.7%             | 42.7%          |
| Transport, mill & operating costs | (58.2)            | (50.5)            | (49.3)            | (49.3)            | (50.9)            | (52.2)         |
| Maintenance                       | (45.4)            | (46.5)            | (47.7)            | (48.9)            | (50.1)            | (51.4)         |
| Overheads                         | (47.7)            | (43.6)            | (44.3)            | (45.5)            | (46.6)            | (47.8)         |
| <b>Expenses</b>                   | <b>(151.3)</b>    | <b>(140.6)</b>    | <b>(141.4)</b>    | <b>(143.7)</b>    | <b>(147.6)</b>    | <b>(151.3)</b> |
| Other income                      | 2.3               | 1.8               | 1.8               | 1.9               | 1.9               | 2.0            |
| <b>EBITDA</b>                     | <b>(11.7)</b>     | <b>9.3</b>        | <b>31.2</b>       | <b>45.2</b>       | <b>37.6</b>       | <b>38.5</b>    |
| Margin %                          | -3.6%             | 2.6%              | 7.6%              | 10.2%             | 8.7%              | 8.7%           |
| Depreciation & amortisation       | (15.0)            | (16.5)            | (17.8)            | (18.8)            | (19.5)            | (10.6)         |
| <b>EBIT</b>                       | <b>(26.7)</b>     | <b>(7.2)</b>      | <b>13.3</b>       | <b>26.4</b>       | <b>18.1</b>       | <b>27.9</b>    |
| Margin %                          | -8.2%             | -2.0%             | 3.2%              | 5.9%              | 4.2%              | 6.3%           |
| <u>Add / (less):</u>              |                   |                   |                   |                   |                   |                |
| Depreciation                      | 15.0              | 16.5              | 17.8              | 18.8              | 19.5              | 10.6           |
| Capex - Mills                     | (14.4)            | (16.8)            | (15.1)            | (4.9)             | (7.3)             | (6.8)          |
| Capex - Cane Supply               | (7.9)             | (4.6)             | (1.9)             | (3.4)             | (2.4)             | (1.5)          |
| Capex - Other                     | (4.1)             | (5.5)             | (5.2)             | (3.5)             | (2.4)             | (2.3)          |
| Working capital requirement       | (0.2)             | (1.2)             | (1.9)             | (1.2)             | 0.5               | (0.4)          |
| Tax                               | -                 | -                 | (2.8)             | (7.1)             | (5.1)             | (8.4)          |
| <b>Net cash flows (post tax)</b>  | <b>(38.3)</b>     | <b>(18.9)</b>     | <b>4.2</b>        | <b>25.1</b>       | <b>20.9</b>       | <b>19.1</b>    |

Source: Crowe Horwath calculations

In respect of the above:

- Revenues grow and fluctuate in response to increases in the volumes of IPS sugar produced, as well as in response to expected movements in raw sugar prices and foreign exchange rates;
- EBITDA and EBIT margins improve as revenues grow and operating efficiencies are realised following commencement of the capital and maintenance program; and
- Net cash flows are negative in the earlier periods, reflecting the higher initial level of capital expenditure and lower financial performance at this time, and growth over the forecast period.

## 10.2.4 Terminal Value

A terminal value represents the value of a series of cash flows beyond the forecast period. We calculated a terminal value for the Core Milling and Marketing Operations (excluding the Mossman Mill and inclusive of the cogeneration plant) using the constant growth perpetuity formula. Under this methodology, the terminal value at time (n) is calculated as the net cash flow for the period ended n+1 divided by the discount rate adopted less the terminal growth rate:

$$\text{Present Value}(n) = \text{Cash Flow}(n+1) / (\text{Discount Rate} - \text{Terminal Growth Rate})$$

We adopted the following variables to calculate a terminal value for Mackay Sugar:

- **Cash flow n+1:** pre-debt, post-tax cash flows for FY25(f), which was based on:
  - Revenue growth of 2.5% from FY24(f);
  - Expected increases in direct and indirect expenses; and
  - An estimate of the sustainable level of ordinary capital expenditure, included in the forecast operating expenditure and working capital.
- **Discount rate:** the average of the discount rate range for Mackay Sugar, being 8.75% to 9.75%, as discussed below; and
- **Terminal growth rate:** 2.5% growth rate, being the midpoint of the Reserve Bank of Australia's ("RBA's") target rate for inflation.

## 10.2.5 Discount Rate

We calculated a post-tax WACC discount rate for Mackay Sugar of 8.75% to 9.75%, should the Proposed Transaction proceed. This discount rate range assumes the ongoing support of Nordzucker. The basis of our calculations are set out in **Appendix 6**.

## 10.2.6 Enterprise Value

### Controlling and Marketable Basis

Based on the cash flows, terminal value and discount rates detailed above, we calculated the enterprise value of the Core Milling and Marketing Operations, as at the Valuation Date, to be as follows on a controlling and marketable basis:

| Mackay Core Milling & Marketing Operations<br>Enterprise Value - Controlling & Marketable Basis (\$millions) |              |              |              |
|--|--------------|--------------|--------------|
|  | Low          | Mid          | High         |
| NPV of forecast period cash flows  | (11.1)       | (10.9)       | (10.8)       |
| NPV of terminal value  | 165.6        | 183.3        | 201.1        |
| <b>Enterprise Value - Core Business</b>  | <b>154.5</b> | <b>172.4</b> | <b>190.3</b> |

Source: Crowe Horwath calculations

Cash flows during the five year forecast period have a negative NPV due to the level of investment required in capital expenditure and maintenance in the earlier periods, and lower financial performance during this period also.

### Impact of Change in Cane Payment Formula

As part of our analysis, we considered potential impacts associated with Growers that had not agreed to the change in the cane payment formula as at the date of this Report.

We were provided with and performed a range of calculations and confirm that the resultant impacts were not material to the above conclusion.

### **Cross Check – Implied Multiples**

The table below summarises the forecast EBITDA, EBIT and Tonnes Cane Crushed multiples implied by the primary enterprise valuation of the Core Milling and Marketing Operations:

| Mackay Sugar   |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Core Milling & Marketing Operations - Implied Multiples (\$millions) |          |          |          |          |          |
|  | FY20(f)  | FY21(f)  | FY22(f)  | FY23(f)  | FY24(f)  |
| Midpoint enterprise value  | 172.4    | 172.4    | 172.4    | 172.4    | 172.4    |
| Normalised EBITDA  | (11.7)   | 9.3      | 31.2     | 45.2     | 37.6     |
| Normalised EBIT  | (26.7)   | (7.2)    | 13.3     | 26.4     | 18.1     |
| Tonnes Crushed (000s)  | 5,000    | 5,300    | 5,350    | 5,400    | 5,450    |
| Implied EBITDA multiple  | n/m      | 18.6x    | 5.5x     | 3.8x     | 4.6x     |
| Implied EBIT multiple  | n/m      | n/m      | 12.9x    | 6.5x     | 9.5x     |
| Enterprise Value /Tonnes Cane Crushed                                | \$ 34.48 | \$ 32.52 | \$ 32.22 | \$ 31.92 | \$ 31.63 |

Source: Crowe Horwath calculations

By comparison (refer **Appendix 5**), we identified a number of relevant Australian and International transactions which had:

- EBITDA multiples ranging from:
  - **Australian Transactions:** approximately 6 times to 11 times, at an average of approximately 10 times; and
  - **International Transactions:** approximately 8 times to 24 times, at an average of approximately 13 times;
- EBIT multiples for International Transactions ranged from approximately 12 times to 44 times, at an average of approximately 22 times; and
- Enterprise Value/ Tonnes Cane Crushed multiples ranging from \$28/tonne crushed for MSF's acquisition of the Bundaberg Sugar's Northern Milling Assets to \$76/tonne crushed for Wilmar's acquisition of Sucrogen.

The Enterprise Value/ Tonnes Cane Crushed multiples implied by our valuation is at the lower end (once Mackay Sugar returns to more normal profitability) when compared to the observed Australian transactions. In our opinion, considering the current state of the Mackay Core Milling Assets, the level of capital expenditure required to return the milling assets to acceptable production efficiencies as well as forecast risk associated with the Mackay Sugar business and its size relative to the comparable transactions, the cross check supports our primary enterprise valuation.

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## Sensitivity Analysis

The analysis below illustrates the sensitivity of the enterprise value with respect to changes in key assumptions:

| Mackay Core Milling & Marketing Operations  |               |        |        |        |        |         |
|---|---------------|--------|--------|--------|--------|---------|
| Discount rate vs Sugar Price (AUD/tonne) - Enterprise Value Sensitivity Analysis (\$millions) |               |        |        |        |        |         |
| Price   | Discount rate |        |        |        |        |         |
|   |               | 8.25 % | 8.75 % | 9.25 % | 9.75 % | 10.25 % |
|   | (10.00) %     | (78.8) | (78.3) | (77.9) | (77.4) | (76.9)  |
|   | (7.50) %      | (6.6)  | (11.8) | (16.1) | (19.7) | (22.8)  |
|   | (5.00) %      | 65.9   | 55.0   | 45.9   | 38.0   | 31.3    |
|   | (2.50) %      | 138.9  | 122.2  | 108.0  | 95.8   | 85.3    |
|   | - %           | 213.1  | 190.3  | 171.0  | 154.5  | 140.1   |
|   | 2.50 %        | 289.1  | 260.2  | 235.6  | 214.6  | 196.3   |
|   | 5.00 %        | 367.0  | 331.8  | 301.9  | 276.2  | 253.9   |
|   | 7.50 %        | 446.2  | 404.5  | 369.1  | 338.7  | 312.3   |
|   | 10.00 %       | 526.6  | 478.3  | 437.2  | 402.0  | 371.4   |

Source: Crowe Horwath calculations

| Mackay Core Milling & Marketing Operations                               |                               |           |           |           |           |           |
|--|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| Enterprise Value Sensitivity Analysis (\$millions) Low Range Sensitivity |                               |           |           |           |           |           |
| Cane milled vs Sugar Price (AUD/tonne)                                   |                               |           |           |           |           |           |
| Price  | Cane milled (tonnes) - FY2024 |           |           |           |           |           |
|  |                               | 5,250,000 | 5,350,000 | 5,450,000 | 5,550,000 | 5,650,000 |
|  | (10.00) %                     | (91.0)    | (83.5)    | (77.4)    | (71.3)    | (65.2)    |
|  | (7.50) %                      | (32.1)    | (25.9)    | (19.7)    | (13.5)    | (7.3)     |
|  | (5.00) %                      | 25.4      | 31.7      | 38.0      | 44.3      | 50.7      |
|  | (2.50) %                      | 83.0      | 89.4      | 95.8      | 102.3     | 108.7     |
|  | - %                           | 141.1     | 147.8     | 154.5     | 161.1     | 167.8     |
|  | 2.50 %                        | 200.7     | 207.6     | 214.6     | 221.5     | 228.5     |
|  | 5.00 %                        | 261.8     | 269.0     | 276.2     | 283.4     | 290.6     |
|  | 7.50 %                        | 324.1     | 331.4     | 338.7     | 346.0     | 353.3     |
|  | 10.00 %                       | 386.8     | 394.4     | 402.0     | 409.6     | 417.1     |

Source: Crowe Horwath calculations

| Mackay Core Milling & Marketing Operations                                |                               |           |           |           |           |           |
|---|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| Enterprise Value Sensitivity Analysis (\$millions) High Range Sensitivity |                               |           |           |           |           |           |
| Cane milled vs Sugar Price (AUD/tonne)                                    |                               |           |           |           |           |           |
| Price   | Cane milled (tonnes) - FY2024 |           |           |           |           |           |
|   |                               | 5,250,000 | 5,350,000 | 5,450,000 | 5,550,000 | 5,650,000 |
|   | (10.00) %                     | (94.0)    | (85.3)    | (78.3)    | (71.4)    | (64.5)    |
|   | (7.50) %                      | (25.9)    | (18.8)    | (11.8)    | (4.7)     | 2.4       |
|   | (5.00) %                      | 40.5      | 47.8      | 55.0      | 62.3      | 69.5      |
|   | (2.50) %                      | 107.4     | 114.8     | 122.2     | 129.5     | 136.9     |
|   | - %                           | 174.9     | 182.6     | 190.3     | 198.0     | 205.7     |
|   | 2.50 %                        | 244.2     | 252.2     | 260.2     | 268.2     | 276.1     |
|   | 5.00 %                        | 315.2     | 323.5     | 331.8     | 340.1     | 348.4     |
|   | 7.50 %                        | 387.6     | 396.1     | 404.5     | 413.0     | 421.4     |
|   | 10.00 %                       | 460.7     | 469.5     | 478.3     | 487.0     | 495.8     |

Source: Crowe Horwath calculations

As illustrated above, the enterprise value of Mackay Sugar is sensitive to changes in the AUD sugar price that is realised (which is a reflection of USD sugar prices and foreign exchange rates), the volume of cane milled and the discount rate adopted. Notwithstanding this sensitivity, in our opinion, our adopted variables and valuation conclusions are reasonable.

We note that the variables adopted in this report are interdependent and together result in a valuation conclusion that in our opinion is reasonable having regard to our stated definition/premise of value, valuation scope, date and purpose, and results of applicable cross-checks. Accordingly, it is not appropriate to consider changing any variable(s) in isolation.

## 10.3 Sugar Australia JV – 25% Interest

### 10.3.1 Overview

In considering the estimated value of the Sugar Australia JV, we were provided with an impairment assessment financial model, prepared by an independent consultant to Mackay Sugar ("**Independent Consultant**"), dated February 2019.

In formulating our own view in respect of the value of the Sugar Australia JV for the purpose of this Report, we:

- Analysed the work performed by the Independent Consultant;
- Agreed with their view that a DCF valuation methodology was appropriate for valuing the Sugar Australia JV (as already discussed in **Section 9.5**);
- Analysed their assumptions and calculations for reasonability (including the DCF calculations);
- Adopted our own key assumptions, with respect to the:
  - **Refining margins:** based on historical observations;
  - **Inflation rate:** of 2.5% being the midpoint of the RBA's target rate for inflation; and
  - **Discount rate:** a post-tax WACC discount rate of 8.0% to 9.0%. In formulating this view, we constructed a WACC for the Sugar Australia JV, similar to the way in which we constructed a WACC for Mackay Sugar in **Appendix 6** and cognisant of the fact that the Sugar Australia JV, whilst similar in size to Mackay Sugar (in terms of sales) is significantly less volatile as it does not take on pricing risk (rather, it prices sales with customers based on agreed margins per product), and does not have the equipment, logistical and operational complexities to which Mackay Sugar is exposed. On this basis, in our opinion, it is appropriate that the discount rate for the Sugar Australia JV is less than that for Mackay Sugar. We also considered the downstream risk that Mackay Sugar poses for the Sugar Australia JV.

### 10.3.2 Enterprise Value & Equity Value

#### Controlling & Marketable Basis

Based on the enterprise value arrived at using the DCF methodology, and our analysis of the Sugar Australia JV balance sheet, we calculated the value of 100% of the equity in Sugar Australia JV, as at the Valuation Date, to be as follows on a controlling and marketable basis:

| Sugar Australia JV   |              |              |
|--|--------------|--------------|
| Equity Value - Controlling & Marketable Basis (\$millions) |              |              |
|  | Low          | High         |
| Enterprise value - controlling & marketable basis          | 183.7        | 216.3        |
| <u>Add / (less):</u>                                       |              |              |
| Cash   | 2.8          | 2.8          |
| <b>Equity value - controlling &amp; marketable basis</b>   | <b>186.5</b> | <b>219.1</b> |

Source: Crowe Horwath calculations

With respect to the adjustment to arrive at equity value on a controlling and marketable basis for 100% of the Sugar Australia JV, we note the following:

- The cash balance reflects the cash held by the Sugar Australia JV at 31 December 2018 (i.e. from the year end 31 December 2018 accounts). Management has advised that this balance is unlikely to materially change between 31 December 2018 and the Valuation Date; and

- As at the Valuation Date, management advised that the Sugar Australia JV held no assets or liabilities surplus to the operations of the business.

### **Cross Check**

The above enterprise value compares to an enterprise value calculated by the Independent Consultant (for impairment testing purposes) of approximately \$160 million to \$215 million.

### **Sensitivity Analysis**

The analysis below illustrates the sensitivity of the midpoint enterprise value with respect to changes in key assumptions:

| Sugar Australia JV   |             |       |       |       |       |       |       |       |       |       |
|--|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cost plus margin % vs Discount rate Enterprise Value Sensitivity Analysis (\$millions) |             |       |       |       |       |       |       |       |       |       |
| Discount rate  | Cost plus % |       |       |       |       |       |       |       |       |       |
|  |             | 32.5% | 33.0% | 33.5% | 34.0% | 34.5% | 35.0% | 35.5% | 36.0% | 36.5% |
|  | 7.50%       | 37.6  | 87.0  | 137.2 | 188.2 | 240.0 | 292.5 | 345.9 | 400.0 | 455.1 |
|  | 8.00%       | 34.4  | 79.3  | 124.8 | 171.1 | 218.1 | 265.8 | 314.2 | 363.4 | 413.4 |
|  | 8.50%       | 31.7  | 72.8  | 114.6 | 157.0 | 200.0 | 243.7 | 288.0 | 333.1 | 378.9 |
|  | 9.00%       | 29.5  | 67.4  | 106.0 | 145.1 | 184.7 | 225.1 | 266.0 | 307.6 | 349.8 |
|  | 9.50%       | 27.6  | 62.8  | 98.6  | 134.9 | 171.7 | 209.2 | 247.2 | 285.8 | 325.0 |

Source: Crowe Horwath calculations

As illustrated above, the enterprise value of the Sugar Australia JV is sensitive to the cost plus margin assumption and the discount rate adopted. Notwithstanding this sensitivity, in our opinion, our adopted variables and valuation conclusions are reasonable.

We note that the variables adopted in this report are interdependent and together result in a valuation conclusion that in our opinion is reasonable having regard to our stated definition/premise of value, valuation scope, date and purpose, and results of applicable cross-checks. Accordingly, it is not appropriate to consider changing any variable(s) in isolation.

### **10.3.3 Value of the 25% Interest**

In determining the value of Mackay Sugar's 25% interest in the Sugar Australia JV, we adopted the following adjustments (refer to **Appendix 7** for further background regarding the adjustments):

- A discount for lack of control of 10% to 15%, based on a review of the terms of the Joint Venture Agreement; and
- A discount for lack of marketability of 20%, again based on a review of the terms of the Joint Venture Agreement, and also considering the scale and quality of the Sugar Australia JV and its importance to the supply chain.

Summarised below is our assessed value of the 25% interest held by Mackay Sugar:

| Sugar Australia JV   |              |              |
|--|--------------|--------------|
| Value of a 25% interest (\$ millions)                                    |              |              |
|  | Low          | High         |
| <b>Equity value - controlling &amp; marketable basis</b>                 | <b>186.5</b> | <b>219.1</b> |
| Shareholding   | 25.0%        | 25.0%        |
| <b>Pro-rata value of a interest - controlling &amp; marketable basis</b> | <b>46.6</b>  | <b>54.8</b>  |
| Discount for lack of control   | 15.0%        | 10.0%        |
| Discount for lack of marketability                                       | 20.0%        | 20.0%        |
| Composite discount   | 32.0%        | 28.0%        |
| <b>Value of interest</b>   | <b>31.7</b>  | <b>39.4</b>  |

Source: Crowe Horwath calculations



## 10.4 NZSC – 25% Interest

In calculating the equity value of Mackay Sugar's 25% interest in NZSC, we adopted a capitalisation of future maintainable earnings ("FME") methodology.

In adopting this approach, we:

- Had regard to the historic and forecast post-tax dividends paid by NZSC to Mackay Sugar, summarised below:

| Mackay Sugar<br>NZSC Equity Accounted Income (\$ millions) |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
|  | FY16(a) | FY17(a) | FY18(a) | FY19(f) | FY20(f) | FY21(f) | FY22(f) | FY23(f) |
| Equity accounted income                                    | 4.8     | 4.7     | 4.4     | 4.4     | 4.6     | 4.2     | 4.2     | 4.2     |
| Historical Average   | 4.6     |         |         |         |         |         |         |         |
| Forecast Average   | 4.3     |         |         |         |         |         |         |         |

Source: Mackay Sugar & Crowe Horwath calculations

- Adopted future maintainable post-tax earnings of \$4.2 million to \$4.4 million for the 25% interest held in NZSC;
- Applied a price-earnings multiple to our assessed future maintainable post-tax earnings, having regard to the observed trading multiples of comparable companies (further detailed in **Appendix 4**). In doing so, we considered certain adjustments to reflect the fact that the observed comparable companies:
  - Trade on a minority interest basis, whereas Mackay Sugar holds a strategic interest in NZSC. We have addressed this by including a premium for relative control in our analysis; and
  - Reflect marketable securities, whereas NZSC is a private unlisted company.
- In summary the comparable price earnings multiples averaged around 15 times historical earnings and 14 times forecast earnings. We have adopted a price earnings multiple of 10.0 times to 10.5 times. This equates to an implied cost of equity of around 10%, which in our opinion, considering the business model of the NZSC refining business (which is similar to that of the Sugar Australia JV), as well as its scale, is appropriate and supports the multiple adopted.
- Calculated an assessed value of the 25% interest held by Mackay Sugar, summarised as follows. Our relative control and marketability adjustments (refer to **Appendix 7** for further background regarding the adjustments) were made with reference to the listed comparable companies from which our price-earnings multiple was derived:

| NZSC<br>Value of a 25% interest (\$ millions)                  |             |             |
|--|-------------|-------------|
|  | Low         | High        |
| Future maintainable earnings                                   | 4.2         | 4.4         |
| Price Earnings Multiple  | 10.0x       | 10.5x       |
| <b>Value of 25% Interest - minority &amp; marketable basis</b> | <b>42.0</b> | <b>46.2</b> |
| Premium for relative control                                   | 10%         | 10%         |
| Discount for lack of marketability                             | (30%)       | (30%)       |
| Composite (premium)/discount                                   | 23.0%       | 23.0%       |
| <b>Value of 25% Interest</b>                                   | <b>32.3</b> | <b>35.6</b> |

Source: Crowe Horwath calculations

## 10.5 STL - M Class Shares

### 10.5.1 Overview

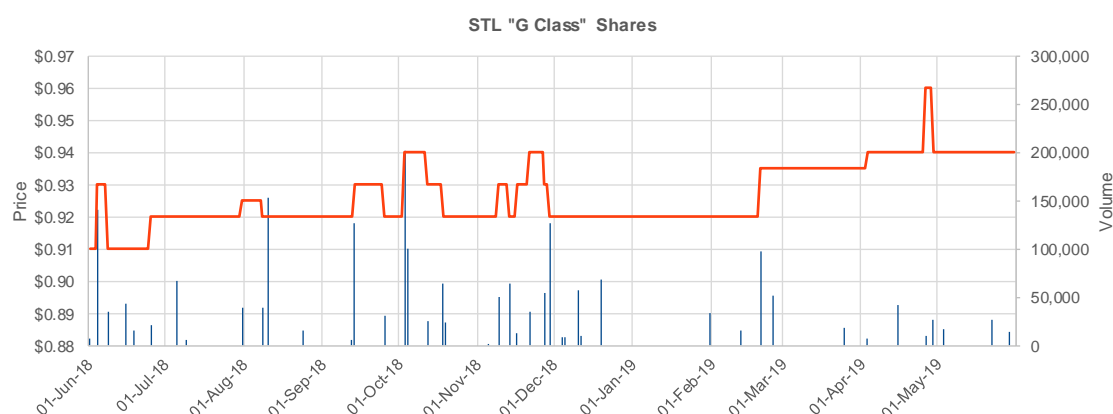
In valuing Mackay Sugar's M Class shares in STL, we considered the recent share trading history in STL's G Class shares, which trade on the NSX, as well as key differences between the M Class and G Class shares.

Mackay Sugar holds approximately 25.1% of M Class STL Shares, which equates to approximately 9.1% of STL total shares on issue as summarised below:

| Sugar Terminal Limited - Mackay Holdings |                |               |              |
|--|----------------|---------------|--------------|
| STL - Shares Outstanding                 | Total          | Mackay Sugar  |              |
|  | (000s)         | (000s)        | %            |
| G Class                                  | 229,348        | -             | - %          |
| M Class                                  | 130,652        | 32,730        | 25.1 %       |
| <b>Total</b>                             | <b>360,000</b> | <b>32,730</b> | <b>9.1 %</b> |

As previously discussed in **Section 5.3.5**, STL is an Australian listed public company, which owns and operates six bulk commodity terminals in Queensland, which handle over 90% of the raw sugar produced in Australia.

The G Class shares are listed on the NSX, while the M Class shares are not listed on any public exchange. Liquidity of the G Class shares are low, with approximately 1% of this share class having traded in the past year.



Source: Capital IQ

Our adopted discount for lack of marketability in respect of the M Class shares is a discount of 5% discount on the price of the G Class Shares, which are illiquidly traded as set out above.

The rights attached to each of the M Class and G Class shares are broadly consistent, other than:

- G Class shares can only be issued to active growers and no G Class shareholder may vote more than the number of votes equal to 5% of the total number of G Class shares; and
- M Class shares can only be issued to active millers.

## 10.5.2 Conclusion on Value

As the rights attached to the G Class shares and M Class shares are broadly consistent, we adopted a value range per M Class share of \$0.91 to \$0.96 per share (being the range of prices at which the G Class shares traded in the past twelve months), then applied a discount for lack of marketability (refer to **Appendix 7** for further background regarding this adjustment) recognising a balance between the fact that the M Class share are not listed, however STL is a key industry asset which is sought after by competing millers:

| STL - M Class Shares                          |             |             |
|---|-------------|-------------|
| Value of Interest (\$millions)                |             |             |
|   | Low         | High        |
| STL MClass Shares Held (000s)                 | 32,730      | 32,730      |
| Adoped Value Per Share (\$)                   | 0.91        | 0.96        |
| <b>Value of Investment - marketable basis</b> | <b>29.8</b> | <b>31.4</b> |
| Discount for lack of marketability            | 5.0%        | 5.0%        |
| <b>Value of interest</b>                      | <b>28.3</b> | <b>29.8</b> |

Source: Crowe Horwath Calculations

As a cross check, we compared the value arrived at to the dividend received in 2018. This resulted in an implied dividend yield of approximately 7%, which in our opinion is reasonable, and supports our primary valuation conclusion.

## 10.6 Other Investments

As discussed in **Section 5.3.5**, Mackay Sugar's other investments include Oriana Shipping, M&M Molasses and Racecourse Projects.

As discussed in **Section 9.5**, we have assessed the value of these investments using a net assets methodology, making adjustments for the relevant interest held by Mackay in each entity, as well as considering Mackay Sugar's control of and the marketability of Mackay's Sugar's investment in each.

Our resultant assessed value of the Other Investments held by Mackay Sugar is \$1.5 million to \$1.7 million. For the avoidance of doubt our assessed value of the Other Investments represents an equity value considering the level of control and marketability relevant to each interest.

## 10.7 Tax Losses

### 10.7.1 Overview

At 31 May 2018, Mackay Sugar had accumulated income tax losses of approximately \$126.7 million. Under the Australian Tax Legislation these losses may be carried forward and utilised to offset profits in future periods if Mackay Sugar are able to pass either the:

- Continuity of ownership test; or
- The same business test.

The ability to meet these tests is considered complex and difficult to definitively determine. Accordingly, for the purpose of this Report, we have considered the value of these losses to Mackay Sugar on the following basis:

- At the low end of our valuation range, we assumed that the accumulated tax losses will not be recoverable in the future; and
- At the high end of our value range, we assumed that the accumulated tax losses will be fully available to offset future taxable income.

For the high end scenario, we calculated the NPV of the tax saved from the estimated future utilisation of the losses by:

- Modelling the expected future use of the losses, based on the Adjusted Financial Model (including opening carried forward losses as well as forecast tax losses to be incurred in FY19 through FY21); and
- Applying a discount rate of 9.25% to the forecast tax savings (i.e. consistent with the mid-point of our adopted WACC for the Core Milling and Marketing Operations, previously discussed in **Section 10.2.5**).

#### **10.7.2 Conclusion on Value**

Based on the above analysis we adopted a value for the accumulated tax losses of \$nil/nominal at the low end and \$32.3 million at the high end.

### **10.8 Surplus Cash and Other Assets**

#### **10.8.1 Surplus Cash**

On the basis that Mackay Sugar is seeking additional funds, we consider all cash to be required by the business for operational and working capital purposes, and none of the cash to be surplus.

#### **10.8.1 Other Surplus Assets**

As discussed in **Section 5.7**, the Pleystowe site no longer operates as an active cane mill, however, it does provide a range of critical support functions to the broader Mackay Sugar Business (including in relation to rolling stock logistics, repair and maintenance of the rolling stock, information technology and administration). The site also includes a number of properties that are typically used by mill employees. Management advise that Mackay Sugar would not sell the site separate to the business.

Accordingly, we have included this site in our assessment of the core milling and marketing business, and not as a surplus asset.

## 10.9 Debt and Interest Bearing Liabilities

The following is a summary of Mackay Sugar's debt position at 30 November 2018, adjusted to reflect the expected balances as at the Valuation Date:

| Mackay Sugar                                       |          |              |               |              |              |
|--|----------|--------------|---------------|--------------|--------------|
| Debt & Interest Bearing Liabilities (\$millions)   |          |              |               |              |              |
|  | Notes    | 30-Nov-18    | Adjustments   | 31-May-19    |              |
|  |          |              |               | Low          | High         |
| NAB Facility                                       | 1        | 50.0         | -             | 50.0         | 50.0         |
| Rabo Facility                                      | 1        | 49.9         | 0.1           | 50.0         | 50.0         |
| Bank Seasonal Funding                              | 1        | -            | 30.0          | 30.0         | 30.0         |
| QSL Season facility                                | 1        | 70.2         | (70.2)        | -            | -            |
| Corporate Notes                                    | 2        | 49.9         | (24.9)        | 25.0         | 25.0         |
| QUBE Lease Liability                               | 1        | 0.8          | (0.8)         | -            | -            |
| Unsecured Notes                                    | 1        | 8.1          | (5.6)         | 2.5          | 2.5          |
| Interest Bearing deposits                          | 1        | 0.2          | (0.1)         | 0.1          | 0.1          |
| <b>Interest Bearing Debt</b>                       |          | <b>229.2</b> | <b>(71.6)</b> | <b>157.6</b> | <b>157.6</b> |
| STL Share Subscription                             | 3        | 27.9         | n/a           | 28.1         | 29.0         |
| Deferred Cane payment (\$2/tonne Grower Liability) | 4        | 18.5         | (0.0)         | 18.4         | 18.4         |
| <b>Other Debt Like Items</b>                       |          | <b>46.4</b>  | <b>(0.0)</b>  | <b>46.6</b>  | <b>47.4</b>  |
| <b>Debt &amp; Interest Bearing Liabilities</b>     | <b>5</b> | <b>275.6</b> | <b>(71.6)</b> | <b>204.1</b> | <b>205.0</b> |

Source: 30 November 2018 Statutory Accounts for the Half-year ended 30 November 2018 & Crowe Horwath Calculations

Note: Table includes rounding

Notes:

1. Estimate of expected balance as at Valuation Date provided by management.
2. Expected movement, consistent with the Conditions Precedent of the Proposed Transaction and the advice of management of Mackay Sugar.
3. Represents our calculation of the current value of the liability owing to One Tree, regarding the STL Share Subscription (as previously discussed in **Section 5.3.5**), based on analysis of and amendment to management calculations. Consistent with Mackay Sugar's arrangement with One Tree Agriculture, we calculated the value of this liability based on the initial \$26.5 million principal owing, plus 50% of the incremental movement in value of the STL M Class shares (i.e. movement from the \$26.5 million principal), based on our assessed value of the STL Shares, previously discussed in **Section 10.5**.
4. We have made an adjustment to the current value of this liability to reflect the expected timing of the repayment of the deferred cane payment.
5. As previously detailed in **Section 5.7**, Mackay Sugar held total debt and interest bearing liabilities of \$275.6 million at 30 November 2018.

The above does not include facilities yet to be drawn down by Mackay Sugar. For the avoidance of doubt, our adopted cash flows reflect all expected future investment in capital and maintenance programs, and our adopted discount rates address an appropriate capital structure for Mackay Sugar (including future debt financing).

## 10.10 Other Liabilities

The following is a summary of other liabilities which are either contingent, or to be assumed, as a function of the Proposed Transaction:

| Mackay Sugar  |       |            |            |
|---|-------|------------|------------|
| Other Liabilities (\$millions)                                |       |            |            |
|   | Notes | 31-May-19  |            |
|   |       | Low        | High       |
| Transaction Costs FY20  | 1     | 4.1        | 4.1        |
| Mossman Mill - Assumed Net Liabilities/Contingent Liabilities | 2     | 1.5        | 3.6        |
| Contingent liabilities  | 3     | 0.0        | 0.0        |
| <b>Total Other Liabilities</b>                                |       | <b>5.6</b> | <b>7.7</b> |

Source: Crowe Horwath Calculations

Notes:

1. As part of the Proposed Transaction, management estimate that Mackay Sugar will incur transaction costs of approximately \$4.1 million during the FY20, which were not included in Management's cash flow forecasts.
2. As part of the Proposed Transaction, Mackay Sugar will assume a number of liabilities in connection with the disposal of the Mossman Mill as well as incur an operating result for the month of June 2019 (not included in the Base Financial Model - Nordzucker Case). The high value includes a potential liability, estimated to be approximately \$2.1 million, should the Mossman Mill shut down prior to 31 December 2020. The low value excludes this liability as it may not occur.
3. Management advised that Mackay Sugar has several contingent liabilities outstanding at the Valuation Date and the that claims are expected to be covered by Mackay Sugar's current insurance policies. Accordingly, the contingent liabilities balance reflects management's expectation of the total insurance excesses payable of \$15,000, should the claims proceed. For the avoidance of doubt, the amounts appear as nil above as they are below the \$1 million rounding threshold of the table.

## 10.11 Preference Share Liabilities

As part of the Proposed Transaction, Nordzucker will be issued with CPS which will provide it with preferential dividends of \$10 million.

As the preferential dividends are not expected to be paid to Nordzucker until financial years 2026 and 2027, we have discounted the cash flows associated with these to reflect the present value of those liabilities to Mackay Sugar (using a discount rate of 8.75% to 9.75%, consistent with our assessed WACC for Mackay Sugar assuming the Proposed Transaction proceeds). This treatment, in terms of timing, is consistent with the available cash flows adopted in our valuation of the Core Milling and Marketing Operations.

As the preference dividends do not impact the value of 100% of the equity in Mackay Sugar, but do impact the value to pre-existing Shareholders (i.e. the 30% minority shareholders post-transaction), we allowed for this debt-like item detailed in the table below, which is specific to those shareholders only, in **Section 10.12.5**.

| Mackay Sugar  |           |      |
|---|-----------|------|
| Preference Share Liabilities - Ordinary Shareholders (\$millions) |           |      |
|   | 31-May-19 |      |
|   | Low       | High |
| Present value of CPS - Preferential Dividend                      | 5.2       | 5.5  |

Source: Crowe Horwath Calculations

## 10.12 Equity Value

### 10.12.1 Controlling and Marketable Basis

Based on the various component parts of Mackay Sugar, we calculated the value of 100% of the equity in Mackay Sugar, as at the Valuation Date, to be as follows on a controlling and marketable basis, assuming that the Proposed Transaction does proceed:

| Mackay Sugar   |         |             |              |
|--|---------|-------------|--------------|
| Equity Value - Controlling & Marketable Basis (\$millions)     |         |             |              |
|  | Section | Low         | High         |
| Enterprise value - controlling & marketable basis              |         | 154.5       | 190.3        |
| <u>Add / (less):</u>   |         |             |              |
| Sugar Australia JV   | 10.3    | 31.7        | 39.4         |
| NZSC   | 10.4    | 32.3        | 35.6         |
| STL Shares - Asset   | 10.5    | 28.3        | 29.8         |
| Value of Investments - Other investments                       | 10.6    | 1.5         | 1.7          |
| Tax Losses   | 10.7    | -           | 32.3         |
| Cash & Other Assets  | 10.8    | -           | -            |
| Debt & Interest Bearing Liabilities                            | 10.9    | (205.0)     | (204.1)      |
| Other Liabilities  | 10.10   | (7.7)       | (5.6)        |
| <b>Equity value - controlling basis &amp; marketable basis</b> |         | <b>35.6</b> | <b>119.4</b> |
| <b>Midpoint</b>  |         |             | <b>77.5</b>  |

Source: Crowe Horwath calculations

The broad range in equity value above is due to the impact of Mackay Sugar's significant borrowings and other liabilities (i.e. the ranges on an asset by asset basis are significantly lower).

### 10.12.2 Cross Check

By comparison, we calculated the NPV of Nordzucker's equity investment (\$60 million subscription plus the NPV of preferred dividends) to be in the vicinity of \$65 million. This implies a value for 100% of the equity in Mackay Sugar of approximately \$98 million after removing a small discount for lack of absolute control (i.e. (\$65 million / 70%) / (100% - 5%)).

Accordingly, the implied value of Nordzucker's equity investment is broadly consistent with our valuation range.

In our opinion, this supports our primary valuation conclusion.

### 10.12.3 Discount for Lack of Control

We note that if the Proposed Transaction does proceed:

- Shareholders will no longer collectively control Mackay Sugar;
- Nordzucker will have 70% of the voting rights in Mackay Sugar from Completion, and consequently, will have the ability to pass ordinary resolutions (which require a vote of over 50%) and significantly influence special resolutions (which require a vote of 75%), however, there are Reserved Matters voting protocols as set out **Section 2.5**, which effectively increase the voting power of pre-existing Shareholders in certain circumstances;
- The Other Shareholders will, if acting collectively, have the ability to block special resolutions.

Based on the above, we adopted a discount for lack of control of 10% to 15% in valuing the 30% interest in Mackay Sugar that Shareholders will have post-transaction.

Refer to **Appendix 7** for further background regarding this adjustment.



#### 10.12.4 Discount for Lack of Marketability

In considering the marketability of the 30% interest being valued, we specifically considered the:

- Sector in which Mackay Sugar operates and the high volatility of the global sugar prices;
- Composition of Mackay Sugar's other assets;
- Availability of potential buyers of a 30% equity interest in Mackay Sugar;
- Current state of the core milling assets;
- Impact of the preferred dividend rights associated with the CPS (i.e. the 30% interest is not entitled to the first \$10 million in dividends that it would ordinarily would be); and
- The discounts for lack of marketability already adopted in valuing Mackay Sugars joint venture and other investments.

Considering these factors, we adopted an incremental discount for lack of marketability of 15% (predominantly related to the value of the Core Milling and Marketing Operations, which have not yet had a marketability adjustment applied in our above analysis).

For the avoidance of doubt, we avoided double counting the discount for lack of marketability by considering the earlier discounts applied, as discussed above.

Refer to **Appendix 7** for further background regarding this adjustment.

#### 10.12.5 Equity Value – 30% Interest

Based on the above, below is the value of the 30% interest in Mackay Sugar that the pre-existing Shareholders will have if the Proposed Transaction proceeds, as at the Valuation Date (considering the level of control and marketability of the interest):

| Mackay Sugar   |             |             |
|--|-------------|-------------|
| Equity Value - 30% Interest Basis (\$millions)                                 |             |             |
| Section  | Low         | High        |
| Equity value - controlling & marketable basis                                  | 35.6        | 119.4       |
| Shareholding   | 30.0%       | 30.0%       |
| <b>Pro-rata value of the 30% interest - controlling &amp; marketable basis</b> | <b>10.7</b> | <b>35.8</b> |
| Discount for lack of control   | 15.0%       | 10.0%       |
| Discount for lack of marketability   | 15.0%       | 15.0%       |
| Composite discount   | 27.8%       | 23.5%       |
| <b>Value of a 30% interest - before preferred dividends</b>                    | <b>7.7</b>  | <b>27.4</b> |
| Preference dividends   | 10.11       | (5.2)       |
| <b>Conclusion on value of 30% interest</b>                                     | <b>2.2</b>  | <b>22.2</b> |

Source: Crowe Horwath calculations

### 10.12.6 Value per Share

Based on the above, summarised below is the value of each Ordinary Share in Mackay Sugar to the pre-existing Shareholders, assuming the Proposed Transaction proceeds (i.e. assuming all Voting Shares and Investment Shares are converted to Ordinary Shares), on a minority interest basis:

| Mackay Sugar<br>Assessed Value per Ordinary Share (30% Interest)<br>Post Proposed Transaction |              | Low        | High        |
|---|--------------|------------|-------------|
| Value of a 30% interest   | (\$m)        | 2.2        | 22.2        |
| Ordinary Shares - Existing Shareholders   | (m)          | 212.9      | 212.9       |
| <b>Assessed Value</b>   | <b>(cps)</b> | <b>1.0</b> | <b>10.4</b> |

Source: Crowe Horwath calculations

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## 11 Valuation of Mackay Sugar – pre Proposed Transaction (Status Quo Case)

### 11.1 Overview

In undertaking the pre-Proposed Transaction valuation, we adopted the same approach as for the post-Proposed Transaction valuation (as set out in Section 10) in terms of:

- Valuation date;
- The fair market value standard of value;
- A sum of the parts valuation approach;
- The same valuation methodology for each of the component parts, as set out throughout **Section 10**, including a DCF methodology as the primary methodology for the core milling and marketing operations. As the DCF valuation for the core milling and marketing operations, and subsequently the overall equity value of Mackay Sugar resulted in a negative value, we also considered an asset-based methodology / net assets methodology in valuing the total equity in Mackay Sugar for the pre-implementation scenario.

We note that our valuation analysis on a pre Proposed Transaction basis is inclusive of a premium for control and therefore any resulting share value reflects a controlling basis.

Conceptually, the value of the equity in an entity should not be less than the value of its net assets under an appropriate realisation basis (i.e. going concern, orderly realisation or fire sale). Accordingly, we performed a net assets valuation on both a going concern and an orderly realisation of assets basis.

This approach is consistent with paragraph 81 of Regulatory Guide 111, which stipulates that an expert may also need to assess the carrying value of an entity's assets if the primary valuation methodology it has employed results in a value that is less than the entity's reported net assets (after allowing for reasonable realisation costs).

The adopted approach to the fairness assessment and valuation methodologies reflect the commercial and economic circumstances facing Mackay Sugar and its shareholders, both before and after the Proposed Transaction. In our opinion, due to the significantly different circumstances impacting the shareholders pre versus post the Proposed Transaction, this style of analysis (i.e. what the shareholders stand to have if the Proposed Transaction does proceed, versus if it does not proceed) is the most relevant information to shareholders in deciding whether to vote for or against the Proposed Transaction.

Whilst general commentary in nature, paragraph 5 of Regulatory Guide 111 states that "In deciding on the appropriate form of analysis for a report, an expert should bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction. An expert should focus on the purpose and outcome of the transaction, that is, the substance of the transaction, rather than the legal mechanism used to effect the transaction." In our opinion, our adopted approach to the valuations and fairness assessment is consistent with this guidance.

In some circumstances, when preparing an Independent Expert's Report, the pre and post-Transaction valuations may be the same, however, this is not the fundamental case in the Mackay Sugar / Nordzucker situation. The post-Proposed Transaction shareholding in Mackay Sugar is akin to holding a share in a Proposed Merged Entity. In the case where shareholders are offered scrip in the acquirer, the post value is based on a share in the Proposed Merged Entity (on a minority basis). Given the level of support, both financial and operational that Nordzucker will provide, including other flow on impacts around grower confidence and cane formula etc, this gives rise to the pre and post-Proposed Transaction enterprise values of Mackay Sugar being different.

## 11.2 Core Business DCF and Sum of the Parts Valuation

### 11.2.1 Overview & Methodology

In this section we value the shares in Mackay Sugar by applying the same approach, methodology and analysis as we did for the valuation post-implementation of the Proposed Transaction (i.e. a DCF valuation of the core milling and marketing operations and the adoption of an overall sum of the parts equity valuation - refer **Section 10.2**).

### 11.2.2 Cash Flows

The key differences between the Status Quo Case and Nordzucker Case analysis are:

- Total cane crushed tonnages (and total IPS volumes) are lower under the Status Quo Case in financial years ended 31 May 2022 through 31 May 2024 which is due to the model assuming milling capacity constraints given different capital expenditure profile;
- Consequently, revenues are lower;
- Continuation of the PRS cane payment formula (compared to the CCS Cane payment formula under the Nordzucker Case), which increases the cost of goods sold;
- Higher transport, mill and operating costs, and a different capital expenditure profile; and
- Continuation of business as is (excluding the Mossman Mill operations), in the absence of the implementation of the Proposed Transaction.

For the avoidance of doubt, the Adjusted Financial Model for the Status Quo Case assumes that the Mossman Mill is sold, consistent with the existing sale process with FNM. Notwithstanding, there is risk that this transaction does not proceed to completion.

Summarised below are the resultant cash flows we adopted for the pre-Proposed Transaction DCF valuation:

| Mackay Group - Core Operations    |           |                |                |                |                |                |                |
|-----------------------------------|-----------|----------------|----------------|----------------|----------------|----------------|----------------|
| Forecast Cash Flows (\$millions)  |           |                |                |                |                |                |                |
| Financial Year Ended              | 31-May-19 | 31-May-20      | 31-May-21      | 31-May-22      | 31-May-23      | 31-May-24      | Terminal yr    |
| Season                            | 2018      | 2019           | 2020           | 2021           | 2022           | 2023           |                |
| Cane crushed (Mt)                 |           | 5,000,000      | 5,300,000      | 5,300,000      | 5,300,000      | 5,300,000      |                |
| IPS volumes                       |           | 696,905        | 729,507        | 729,507        | 729,507        | 729,507        |                |
| Revenue                           |           | 323.8          | 351.8          | 397.5          | 421.9          | 403.4          | 413.5          |
| Growth %                          |           |                | 8.6%           | 13.0%          | 6.1%           | -4.4%          | 2.5%           |
| COGS                              |           | (190.9)        | (216.0)        | (245.3)        | (260.5)        | (249.1)        | (255.4)        |
| <b>Gross profit</b>               |           | <b>132.9</b>   | <b>135.8</b>   | <b>152.2</b>   | <b>161.4</b>   | <b>154.3</b>   | <b>158.2</b>   |
| Margin %                          |           | 41.0%          | 38.6%          | 38.3%          | 38.3%          | 38.2%          | 38.2%          |
| Transport, mill & operating costs |           | (59.5)         | (55.1)         | (56.5)         | (57.9)         | (59.3)         | (60.8)         |
| Maintenance                       |           | (47.7)         | (48.9)         | (50.1)         | (51.3)         | (54.7)         | (56.0)         |
| Overheads                         |           | (42.9)         | (44.0)         | (45.1)         | (46.2)         | (47.4)         | (48.6)         |
| <b>Expenses</b>                   |           | <b>(150.1)</b> | <b>(148.0)</b> | <b>(151.7)</b> | <b>(155.4)</b> | <b>(161.4)</b> | <b>(165.4)</b> |
| Other income                      |           | 1.8            | 1.8            | 1.8            | 1.9            | 1.9            | 2.0            |
| <b>EBITDA</b>                     |           | <b>(15.3)</b>  | <b>(10.4)</b>  | <b>2.3</b>     | <b>7.8</b>     | <b>(5.1)</b>   | <b>(5.3)</b>   |
| Margin %                          |           | -4.7%          | -3.0%          | 0.6%           | 1.9%           | -1.3%          | -1.3%          |
| Depreciation & amortisation       |           | (14.9)         | (16.1)         | (16.8)         | (17.6)         | (18.5)         | (9.4)          |
| <b>EBIT</b>                       |           | <b>(30.1)</b>  | <b>(26.5)</b>  | <b>(14.5)</b>  | <b>(9.8)</b>   | <b>(23.6)</b>  | <b>(14.7)</b>  |
|                                   |           | -9.3%          | -7.5%          | -3.7%          | -2.3%          | -5.9%          | -3.6%          |
| <u>Add / (less):</u>              |           |                |                |                |                |                |                |
| Depreciation                      |           | 14.9           | 16.1           | 16.8           | 17.6           | 18.5           | 9.4            |
| Capex - Mill                      |           | (4.8)          | (5.9)          | (6.9)          | (4.6)          | (6.8)          | (6.1)          |
| Capex - Cane Supply               |           | (2.6)          | (1.6)          | (0.9)          | (3.2)          | (2.2)          | (1.3)          |
| Capex - head office               |           | (1.3)          | (1.9)          | (2.4)          | (3.3)          | (2.3)          | (2.0)          |
| Working capital requirement       |           | (0.2)          | (1.0)          | (1.6)          | (0.9)          | 0.6            | (0.4)          |
| Tax                               | 30.0%     | -              | -              | -              | -              | -              | -              |
| <b>Net cash flows (post tax)</b>  |           | <b>(24.3)</b>  | <b>(20.8)</b>  | <b>(9.5)</b>   | <b>(4.1)</b>   | <b>(15.8)</b>  | <b>(15.1)</b>  |

Source: Crowe Horwath calculations

In respect of the above:

- Tonnes of cane crushed, revenues and gross profits are lower under the Status Quo Case, given different capital expenditure profile discussed above;
- Revenues grow and fluctuate in response to increases in the volumes of IPS sugar produced, as well as in response to expected movements in raw sugar prices and foreign exchange rates;
- Expenses are higher, associated with supporting the ageing assets; and
- Net cash flows remain negative throughout the forecast period.

Summarised below is a reconciliation of the key differences between the Status Quo Case compared to the Nordzucker Case:

| Mackay Group - Core Operations   |       |               |               |              |              |               |
|--|-------|---------------|---------------|--------------|--------------|---------------|
| Net Cash Flows Reconciliation - Status Quo Case v Nordzucker Case (\$millions) |       |               |               |              |              |               |
| Financial Year Ended   |       | 31-May-20     | 31-May-21     | 31-May-22    | 31-May-23    | 31-May-24     |
| Season   | Notes | 2019          | 2020          | 2021         | 2022         | 2023          |
| <b>Net cash flows (post tax) - Status Quo Case</b>                             |       | <b>(24.3)</b> | <b>(20.8)</b> | <b>(9.5)</b> | <b>(4.1)</b> | <b>(15.8)</b> |
| Revenue - Increase/(Decrease)  | 1     | (0.3)         | 5.8           | 13.9         | 22.6         | 25.8          |
| COGS - (Increase)/Decrease   | 2     | 4.7           | 6.6           | 4.7          | 3.0          | 3.1           |
| Operating Expenses - (Increase)/Decrease                                       | 3     | (1.2)         | 7.3           | 10.3         | 11.8         | 13.7          |
| Other income - (Increase)/Decrease   |       | 0.4           | -             | -            | -            | -             |
| Capex - (Increase)/Decrease  | 4     | (17.6)        | (17.5)        | (12.1)       | (0.8)        | (0.8)         |
| Working capital requirement - (Increase)/Decrease                              |       | 0.0           | (0.2)         | (0.3)        | (0.3)        | (0.1)         |
| Tax - (Increase)/Decrease  | 5     | -             | -             | (2.8)        | (7.1)        | (5.1)         |
| <b>Net cash flows (post tax) - Nordzucker Case</b>                             |       | <b>(38.3)</b> | <b>(18.9)</b> | <b>4.2</b>   | <b>25.1</b>  | <b>20.9</b>   |
| <b>Variance: Status Quo Case v Nordzucker Case - Positive/(Negative)</b>       |       | <b>(14.0)</b> | <b>1.9</b>    | <b>13.7</b>  | <b>29.1</b>  | <b>36.7</b>   |

Source: Crowe Horwath calculations

With respect to the notes identified in the table above, refer to commentary previously discussed in **Section 8.3**

### 11.2.3 Discount Rate

With respect to the discount rate applied to the cash flows of the Status Quo Case, we note:

- We adopted the same approach to determine an appropriate discount rate as we did for the post-implementation of the Proposed Transaction (i.e. under the Nordzucker Case) (refer **Section 10.2.5**);
- Required rates of return (i.e. discount rates) are a function of, and return for, the risk being for investing in the business. Whilst the forecasting methodology for the Status Quo Case and Nordzucker Case were the same, there is an argument that the pre-Transaction scenario (i.e. Status Quo Case) has a higher level of business risk, and should therefore have a higher discount rate (to compensate for the greater risk), all things being equal; however
- Whether the discount rate is higher, the same or lower for the Status Quo Case compared to the Nordzucker Case is not relevant, as the negative expected cash flows result in a negative NPV in all circumstances.

#### 11.2.4 Enterprise Value

As the annual projected cash flows are negative under the pre-Proposed Transaction scenario, so too is the resultant NPV of the cash flows. Accordingly, we assessed the enterprise value of the Core Milling and Marketing Operations, as at the Valuation Date, to be **nil or nominal**.

#### 11.2.5 Equity Value

We then considered the other non-core assets and liabilities as well as debt and debt-like items, in the same way that we did for the post-Proposed Transaction valuation (refer **Section 10.3** through **Section 10.10**).

The key differences between the pre-Proposed Transaction and post-Proposed Transaction analysis are:

- We concluded that the value of tax losses are nil/nominal (at the high value) under the Status Quo Case, given the absence of taxable income forecast under this scenario (i.e. there will be no opportunity to realise the value of the accumulated tax losses under this scenario); and
- Total interest bearing debt is \$25 million greater (i.e. \$229.1 to \$230.0 million Status Quo Case compared to \$204.1 to \$205.0 million Nordzucker Case). The increase in interest bearing debt represents the face value of the Corporate Notes (i.e. \$50 million), given the 50% discount is conditional on the Proposed Transaction proceeding.

Based on the various component parts of Mackay Sugar, we calculated the value of 100% of the equity in Mackay Sugar, as at the Valuation Date, to be as follows, under the Status Quo Case, on a controlling and marketable basis:

| Mackay Sugar<br>Equity Value - Controlling & Marketable Basis (\$millions) |                  |                  |
|--|------------------|------------------|
|  | Low              | High             |
| Adopted Enterprise value - controlling & marketable basis                  | \$nil or nominal | \$nil or nominal |
| <u>Add / (less):</u>   |                  |                  |
| Sugar Australia JV   | 31.7             | 39.4             |
| NZSC   | 32.3             | 35.6             |
| STL Shares - Asset   | 28.3             | 29.8             |
| Value of Investments - Other investments                                   | 1.5              | 1.7              |
| Tax Losses   | -                | -                |
| Cash & Other Assets  | -                | -                |
| Debt & Interest Bearing Liabilities  | (230.0)          | (229.1)          |
| Other Liabilities  | (3.6)            | (1.5)            |
| Equity value- controlling & marketable basis                               | (139.7)          | (124.1)          |
| Midpoint   |                  | (131.9)          |
| Adopted Equity value - controlling & marketable basis                      | \$nil or nominal | \$nil or nominal |

Source: Crowe Horwath calculations

As the equity value above is negative, we concluded that 100% of the equity value of Mackay Sugar on a controlling and marketable basis, under Status Quo Case (i.e. pre-implementation of the Proposed Transaction), is **nil or nominal**.

## 11.3 Net Assets Valuation – Going Concern Basis

### 11.3.1 Overview

As discussed above, we also considered a net assets approach (at the equity value level), as conceptually, the value of the equity in an entity should not be less than the value of its net assets under an appropriate realisation basis (i.e. going concern, orderly realisation or fire sale). Accordingly, we performed a net assets valuation on both a going concern and an orderly realisation of assets basis.

This approach is consistent with paragraph 81 of Regulatory Guide 111, which stipulates that an expert may also need to assess the carrying value of an entity's assets if the primary valuation methodology it has employed results in a value that is less than the entity's reported net assets (after allowing for reasonable realisation costs).

In adopting this approach, we considered the fair market value of each of Mackay Sugar's on and off-balance sheet assets and liabilities. Application of this methodology involves assessing the value attributable to each grouping of assets and liabilities, and adjusting those values where appropriate. This approach typically starts with book values and then makes adjustments where relevant. This is the approach we adopted.

In doing so, we considered the net assets in the following categories:

- The core business assets (excluding the Mossman Mill, as discussed in **Section 11.2.2**);
- The net liabilities to be assumed by Mackay Sugar on sale of the Mossman Mill (refer **Section 10.10**) and
- The other net assets and liabilities, as well as interest bearing debt of Mackay Sugar.

### 11.3.2 Net Assets

The table below sets out our net assets valuation of Mackay Sugar pre-Proposed Transaction, based on the book values contained in the Statutory Accounts for the half-year ended 30 November 2018 (i.e. net assets of \$176.3 million - refer **Section 5.7**) and allowing for adjustments for:

- The assumed sale of the Mossman Mill (being the elimination of the net assets related to the Mossman Mill and the recognition of the net liabilities to be assumed by Mackay Sugar on sale of the Mossman Mill);
- Our valuations of the non-core assets (i.e. Investments – refer **Sections 10.3 through 10.6**);
- A reduction in debt to 31 May 2019 (as advised by Management); and
- The decline in net assets of the core operating business to 31 May 2019 (as advised by Management).

For the avoidance of doubt, our valuation adjustments have been performed below the reported net assets line of the 30 November 2018 audited balance sheet. This approach (as opposed to line-by-line adjustments) was necessary due to the availability and format of information in respect of the period from 30 November 2018 to 31 May 2019.

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| Mackay Sugar<br>Net Assets - Going Concern Basis                |       |                              |                              |  |  |
|---|-------|------------------------------|------------------------------|--|--|
|   | Notes | Mackay Sugar<br>Consolidated | Non Core<br>Assets<br>& Debt | Mossman Mill<br>assets<br>/liabilities | Mackay Core<br>business assets<br>/liabilities |
| Book Values - 30 November 2018                                  |       |                              |                              |  |  |
| Assets  |       |                              |                              |  |  |
| Current assets  |       |                              |                              |  |  |
| Cash and cash equivalents                                       |       | 29.6                         | -                            | 0.8                                    | 28.9   |
| Trade and other receivables                                     |       | 143.1                        | -                            | 20.4                                   | 122.7  |
| Other financial assets  |       | 17.8                         | -                            | -                                      | 17.8   |
| Inventories   |       | 16.3                         | -                            | 3.1                                    | 13.2   |
| Other assets  |       | 2.6                          | -                            | 1.4                                    | 1.2  |
| Total current assets  |       | 209.4                        | -                            | 25.6                                   | 183.8  |
| Non-current assets  |       |                              |                              |  |  |
| Trade and other receivables                                     |       | 1.4                          | -                            | 0.2                                    | 1.2  |
| Other financial assets  |       | 5.4                          | -                            | 0.9                                    | 4.5  |
| Investments - equity & other                                    |       | 111.4                        | 111.4                        | -                                      | -  |
| Property, plant and equipment                                   |       | 249.4                        | -                            | 0.4                                    | 249.0  |
| Investment properties   |       | 3.1                          | -                            | -                                      | 3.1  |
| Total non-current assets  |       | 370.6                        | 111.4                        | 1.6                                    | 257.7  |
| Total assets  |       | 580.0                        | 111.4                        | 27.2                                   | 441.5  |
| Liabilities   |       |                              |                              |  |  |
| Current liabilities   |       |                              |                              |  |  |
| Trade and other payables  |       | 89.2                         | -                            | 15.4                                   | 73.8   |
| Interest bearing liabilities                                    |       | 226.4                        | 226.4                        | -                                      | -  |
| Other liabilities   |       | 0.5                          | -                            | -                                      | 0.5  |
| Other financial liabilities                                     |       | 1.8                          | -                            | -                                      | 1.8  |
| Employee benefits   |       | 13.3                         | -                            | 1.5                                    | 11.8   |
| Total current liabilities                                       |       | 331.2                        | 226.4                        | 16.9                                   | 87.9   |
| Non-current liabilities   |       |                              |                              |  |  |
| Interest bearing liabilities                                    |       | 2.7                          | 2.7                          | -                                      | -  |
| Other liabilities   | 1     | 39.4                         | 18.5                         | -                                      | 20.9   |
| Other financial liabilities                                     |       | 27.9                         | 27.9                         | -                                      | -  |
| Employee benefits   |       | 2.4                          | -                            | 0.4                                    | 2.0  |
| Total non-current liabilities                                   |       | 72.5                         | 49.1                         | 0.4                                    | 23.0   |
| Total liabilities   |       | 403.7                        | 275.6                        | 17.3                                   | 110.9  |
| Net assets - as at 30 November 2018                             |       | 176.3                        | (164.2)                      | 9.9                                    | 330.6  |
| Value Adjustments   |       |                              |                              |  |  |
| Net assets as at 30 November 2018                               |       |                              |                              |  |  |
|   |       | 176.3                        | (164.2)                      | 9.9                                    | 330.6  |
| Net Asset Movement: Interest Bearing Liabilities                | 2     | 48.5                         | 48.5                         | n/a                                    | n/a  |
| Net Asset Movement: Investments - Equity & Other                | 3     | 1.9                          | 1.9                          | n/a                                    | n/a  |
| Net Asset Movement: Mossman Mill                                | 4     | (11.8)                       | n/a                          | (11.8)                                 | n/a  |
| Net Asset Movement: Core Business Assets/Liabilities            | 5     | (104.1)                      | n/a                          | n/a                                    | (104.1)  |
| Adjusted Book Value of Net Assets as at 31 May 2019             |       | 110.8                        | (113.8)                      | (2.0)                                  | 226.5  |
| Elimination of Mossman Mill                                     | 6     | 2.0                          | n/a                          | 2.0                                    | n/a  |
| Net Liabilities assumed on disposal of Mossman Mill (Mid Value) | 7     | (2.6)                        | n/a                          | (2.6)                                  | n/a  |
| Value Adjustment: Investments - Equity & Other (Mid Value)      | 8     | (13.1)                       | (13.1)                       | n/a                                    | n/a  |
| Value Adjustment: Interest Bearing Liabilities                  | 9     | (2.4)                        | (2.4)                        | n/a                                    | n/a  |
| Value Adjustment: Core Business Assets/Liabilities              | 10    | (226.5)                      | n/a                          | n/a                                    | (226.5)  |
| Adopted Net Assets 31 May 2019                                  |       | (131.9)                      | (129.4)                      | (2.6)                                  | -  |

Source: 30 November 2018 Statutory Accounts for the Half-year ended 30 November 2018, Management Information & Crowe Horwath calculations

**Notes:**

1. The \$18.5 million allocated to non-core assets and debt represents the Deferred Cane payment (refer **Section 10.9**).
2. This adjustment reflects the movement in Interest Bearing Liabilities from \$275.6 million at 30 November 2018 to \$227.1 million at 31 May 2019 (i.e. \$275.6 million - \$227.1 million = \$48.5 million).

3. This adjustment reflects the movement in investments (i.e. Sugar Australia, NZSC, STL Shares & Other Investments - refer **Sections 10.3 through 10.6**) from \$111.4 million at 30 November 2018 to \$113.3 million at 31 May 2019 (i.e. \$113.3 million - \$111.4 million = \$1.9 million).
4. This adjustment reflects the movement in the Mossman Mill's net assets from \$9.9 million at 30 November 2018 to negative \$2.0 million at 31 May 2019 (i.e. negative \$2.0 million - \$9.9 million = negative \$11.8 million including rounding).
5. This adjustment reflects the movement in the Mackay's core net business assets from \$330.6 million at 30 November 2018 to \$226.5 million at 31 May 2019 (i.e. \$330.6 million - \$226.5 million = \$104.1 million).
6. This adjustment eliminates the Mossman Mill's net liability balance at 31 May 2019, given these net liabilities are assumed to be sold as part of the Mossman Mill divestment.
7. This reflects the mid point value of the estimated net liabilities to be assumed on disposal of the Mossman Mill (previously discussed in **Section 11.2.5**).
8. This reflects the value adjustment to reduce the investments balances, from the book value of \$113.3 million at 31 May 2019 to the mid value conclusion for these investments being \$100.2 (summarised in **Section 10.12.1**) (i.e. \$113.3 million - \$100.2 million = \$13.1 million).
9. This reflects the value adjustment to increase the interest bearing liabilities balances of \$227.1 million at 31 May 2019 to the mid value conclusion for these the interest bearing liabilities balances being \$229.5 million (summarised in **Section 11.2.5**) (i.e. \$229.5 million - \$227.1 million = \$2.4 million).
10. Due to the absence of positive returns, a DCF valuation for the business is negative on a going concern basis. Therefore, this item reflects an adjustment to reduce the book value of the core net business assets from \$226.5 million at 31 May 2019 to \$0 (refer **Section 11.3.3** below for further commentary).

### **11.3.3 Value of Core Net Business Assets**

In relation to the value of the core net business assets (i.e. the net assets of Mackay Sugar excluding its investments and interest bearing liabilities), we considered that:

- Trading conditions between 30 November 2018 and 31 May 2019 have continued to deteriorate. Accordingly, we note Management's expected net asset balance of approximately \$111 at 31 May 2019 reflects the book value of the net assets before impairments, which may occur following preparation of the 31 May 2019 Annual Audited Accounts (i.e. the Statutory Accounts);
- The business is expected to generate material operating losses and negative cash flows (averaging around \$15 million) each year for the full five year forecast period;
- Due to the absence of positive returns, a DCF valuation for the business is negative on a going concern basis (refer **Section 11.2.2**);
- Significant investment in milling and transport equipment is required in order to potentially generate positive earnings from the business, and any return on the asset-base, which would involve substantial changes and improvements to the existing asset base. This is demonstrated in the cash flows of the Status Quo Case, which shows that the required annual investment into the significant maintenance of the aging assets results in net cash outflows; and
- In this situation, it is common for businesses to transact for only nominal consideration, or in fact, for the Vendors to pay the purchaser to take the business off their hands, as evidenced in respect of the sale of the Mossman Mill.

Accordingly, the book value of the core net business assets is not considered a reflection of the fair market value of the business on a going concern basis. Based on the above, in our opinion, the core net business assets of Mackay Sugar are of **nil or nominal value** pre-implementation of the Proposed Transaction.

Additionally, as set out above, Mackay Sugar's non-core assets (net of interest bearing debt) are also of **nil or nominal value**, since the net value of those assets is negative.

For the avoidance of doubt, Mackay Sugar's net business assets would need to be worth more than \$131.9 million in order for the company to have any positive equity value pre-implementation of the Proposed Transaction, on a going concern basis. Based on the above, this is not considered a realistic outcome.

## **11.4 Net Assets Valuation – Orderly Realisation of Assets**

Notwithstanding the above net assets valuation on a going concern basis, we also considered the potential outcome should Mackay Sugar's net assets be realised (i.e. sold) and its liabilities extinguished.

In this situation, the book value of Mackay Sugar's net assets as at 31 May 2019 (i.e. \$110.8 million per **Section 11.3.2**) would be reduced to likely realisable values. These reductions would relate to:

- The assumed sale of the Mossman Mill (being the elimination of the net assets related to the Mossman Mill and the recognition of the net liabilities to be assumed by Mackay Sugar on sale of the Mossman Mill);
- The full impairment of Mackay Sugar's remaining property, plant and equipment, on the basis that there is a net cost in respect of decommissioning and closing down each of the mills.
- The net decommissioning and mill closure costs of \$120 million was determined based on breakdowns provided by management of different categories of removal costs per site based on size and configuration drivers, breakdowns of rail transport clean-up costs by type with cost and size drivers, estimated employee provisions, and breakdowns of proceeds from categories of saleable machinery. The basis of the Management estimates were estimates they obtained from registered demolishers. We discussed, analysed and challenged management as to the types of costs and proceeds that would be incurred, the rationale behind the estimates and differences across the sites. We also checked the mathematical calculations provided;
- Overhead and advisory costs to be incurred during the decommissioning period; and
- Our valuations of the non-core assets (i.e. Investments – refer **Sections 10.3 through 10.6**).

For the avoidance of doubt, our valuation adjustments have been performed below the reported net assets line of the 30 November 2018 audited balance sheet. This approach (as opposed to line-by-line adjustments) was necessary due to the availability and format of information in respect of the period from 30 November 2018 to 31 May 2019.

| Mackay Sugar  |          |                           |                        |  |
|---|----------|---------------------------|------------------------|--|
| Net Assets - Orderly Realisation Basis                          |          |                           |                        |  |
|   | Notes    | Mackay Sugar Consolidated | Non Core Assets & Debt | Mossman Mill assets /liabilities         |
|   |          |                           |                        | Mackay Core business assets /liabilities |
| <b>Book Values - 30 November 2018</b>                           |          |                           |                        |  |
| <b>Assets</b>   |          |                           |                        |  |
| <b>Current assets</b>   |          |                           |                        |  |
| Cash and cash equivalents                                       |          | 29.6                      | -                      | 0.8                                      |
| Trade and other receivables                                     |          | 143.1                     | -                      | 20.4                                     |
| Other financial assets  |          | 17.8                      | -                      | -  |
| Inventories   |          | 16.3                      | -                      | 3.1                                      |
| Other assets  |          | 2.6                       | -                      | 1.4                                      |
| <b>Total current assets</b>                                     |          | <b>209.4</b>              | <b>-</b>               | <b>25.6</b>                              |
| <b>Non-current assets</b>                                       |          |                           |                        |  |
| Trade and other receivables                                     |          | 1.4                       | -                      | 0.2                                      |
| Other financial assets  |          | 5.4                       | -                      | 0.9                                      |
| Investments - equity & other                                    |          | 111.4                     | 111.4                  | -  |
| Property, plant and equipment                                   |          | 249.4                     | -                      | 0.4                                      |
| Investment properties   |          | 3.1                       | -                      | -  |
| <b>Total non-current assets</b>                                 |          | <b>370.6</b>              | <b>111.4</b>           | <b>1.6</b>                               |
| <b>Total assets</b>   |          | <b>580.0</b>              | <b>111.4</b>           | <b>27.2</b>                              |
| <b>Liabilities</b>  |          |                           |                        |  |
| <b>Current liabilities</b>                                      |          |                           |                        |  |
| Trade and other payables  |          | 89.2                      | -                      | 15.4                                     |
| Interest bearing liabilities                                    |          | 226.4                     | 226.4                  | -  |
| Other liabilities   |          | 0.5                       | -                      | -  |
| Other financial liabilities                                     |          | 1.8                       | -                      | -  |
| Employee benefits   |          | 13.3                      | -                      | 1.5                                      |
| <b>Total current liabilities</b>                                |          | <b>331.2</b>              | <b>226.4</b>           | <b>16.9</b>                              |
| <b>Non-current liabilities</b>                                  |          |                           |                        |  |
| Interest bearing liabilities                                    |          | 2.7                       | 2.7                    | -  |
| Other liabilities   | 1        | 39.4                      | 18.5                   | -  |
| Other financial liabilities                                     |          | 27.9                      | 27.9                   | -  |
| Employee benefits   |          | 2.4                       | -                      | 0.4                                      |
| <b>Total non-current liabilities</b>                            |          | <b>72.5</b>               | <b>49.1</b>            | <b>0.4</b>                               |
| <b>Total liabilities</b>  |          | <b>403.7</b>              | <b>275.6</b>           | <b>17.3</b>                              |
| <b>Net assets</b>   |          | <b>176.3</b>              | <b>(164.2)</b>         | <b>9.9</b>                               |
| <b>Value Adjustments</b>  |          |                           |                        |  |
| <b>Net assets as at 30 November 2018</b>                        |          | <b>176.3</b>              | <b>(164.2)</b>         | <b>9.9</b>                               |
| Net Asset Movement: Interest Bearing Liabilities                | 1        | 48.5                      | 48.5                   | n/a                                      |
| Net Asset Movement: Investments - Equity & Other                | 1        | 1.9                       | 1.9                    | n/a                                      |
| Net Asset Movement: Mossman Mill                                | 1        | (11.8)                    | n/a                    | (11.8)                                   |
| Net Asset Movement: Core Business Assets/Liabilities            | 1        | (104.1)                   | n/a                    | n/a                                      |
| <b>Adjusted Book Value of Net Assets as at 31 May 2019</b>      | <b>1</b> | <b>110.8</b>              | <b>(113.8)</b>         | <b>(2.0)</b>                             |
| Elimination of Mossman Mill                                     | 1        | 2.0                       | n/a                    | 2.0                                      |
| Net Liabilities assumed on disposal of Mossman Mill (Mid Value) | 1        | (2.6)                     | n/a                    | (2.6)                                    |
| Value Adjustment: Investments - Equity & Other (Mid Value)      | 1        | (13.1)                    | (13.1)                 | n/a                                      |
| Value Adjustment: Interest Bearing Liabilities                  | 1        | (2.4)                     | (2)                    | n/a                                      |
| Value Adjustment: Core Business Property, Plant & Equipment     | 2        | (249.0)                   | n/a                    | n/a                                      |
| Recognition of net decommissioning and mill closure costs       | 3        | (120.0)                   | n/a                    | n/a                                      |
| <b>Adopted Net Assets 31 May 2019</b>                           |          | <b>(274.4)</b>            | <b>(129.4)</b>         | <b>(142.5)</b>                           |

Source: 30 November 2018 Statutory Accounts for the Half-year ended 30 November 2018, Management Information & Crowe Horwath calculations

**Notes:**

1. With the exception of the value adjustment to the core net business assets (discussed in Note 2 below), refer to the commentary previously discussed in **Section 11.3.2**.
2. The full impairment of Mackay Sugar's remaining property, plant and equipment, on the basis that projected cash flows do not support the current carrying values and there is a net cost to decommissioning and closing each of the mills.
3. The net decommissioning and closure costs of \$120 million described above.

For the avoidance of doubt, there would be additional overhead and advisory costs that would be incurred during the decommissioning period. As the inclusion of these additional costs does not impact our valuation conclusion (as they would only make the net assets even more negative), we did not consider it necessary to quantify these costs.

Since Mackay Sugar's net assets under an orderly realisation of assets are negative, we conclude that the value of its equity under this scenario is **nil or nominal**.

## **11.5 Conclusion on Value**

In summary, we calculated the controlling value of Mackay Sugar's equity in the absence of the Proposed Transaction to be nil or nominal under each of the following methodologies:

- A DCF methodology, on a going concern basis;
- A net assets methodology, on a going concern basis; and
- A net assets methodology, assuming an orderly realisation of assets.

Based on the above, in our opinion, in the absence of the Proposed Transaction, the value of 100% of the equity in Mackay Sugar on a controlling and marketable basis is **nil or nominal**.

By extension, each share in Mackay Sugar is also of **nil or nominal** value pre-implementation of the Proposed Transaction, on a controlling and marketable basis.

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## 12 Evaluation of the Proposed Transaction

### 12.1 Approach to Our Assessment

#### 12.1.1 Fairness and Reasonableness of the Proposed Transaction

In evaluating the fairness and reasonableness of the Proposed Transaction, we considered the requirements of the Act 2001 and relevant Regulatory Guides issued by Australian Securities and Investments Commission, which provide guidance on interpretation.

This Report takes into account the provisions of Regulatory Guide 111 'Content of Expert Reports' issued by ASIC which states that if a company issues securities and, as a consequence, the allottee acquires over 20% of the company, the transaction should be analysed as if it were a takeover bid.

Regulatory Guide 111 issued by ASIC distinguishes "fair" from "reasonable" and considers:

- An offer to be "fair" if the value of the offer is equal to or greater than the value of the securities subject to the offer. This comparison should be made assuming 100% ownership of the "target" and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage held by the "bidder" or its associates in the target when making this comparison.

In circumstances where the business or financials of the Target will be materially different after the transaction (compared to prior), it is common commercial and economic practice to assess fairness by comparing the value of the shareholders' interests both before and after the Proposed Transaction.

- An offer to be "reasonable" if it is fair. It might also be reasonable if, despite being "not fair", the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of a superior alternative.

For the purposes of this Report, Crowe Horwath has treated "fair" and "reasonable" as separate concepts.

In forming our opinion on whether or not the Proposed Transaction is fair for Mackay Sugar shareholders, we compared the value of a share in Mackay Sugar:

- Pre-implementation of the Proposed Transaction, on a controlling basis (i.e. the existing Voting Shares and Investment Shares); and
- Post-implementation of the Proposed Transaction, on a minority interest basis (i.e. the Ordinary Shares).

If the value post-implementation is greater, then the Proposed Transaction would be considered fair. If the value post-implementation is less, then the Proposed Transaction would be considered not fair.

In this instance, both the Voting Shares and the Investment Shares have restricted rights compared to an ordinary class of shares (which has voting, income and capital rights). Accordingly, each of the present classes of shares would be of lesser value than an Ordinary Share (which will only exist post-implementation). Therefore, if the Proposed Transaction was assessed assuming that the Voting Shares and Investment Shares pre-implementation were in fact Ordinary Shares, it would only be even more fair, compared to if they were instead assessed as the restricted (and less valuable) classes of shares that they are (i.e. the assumption that the Voting Shares and Investment have more rights than they do, only narrows any potential incremental value under the Proposed Transaction).

Based on the above, in the first instance, we assessed the Voting Shares and Investment Shares pre-implementation of the Proposed Transaction as if they were Ordinary Shares.

Based on the availability of financial information, forecast information and timing of this report, we adopted a Valuation Date of 31 May 2019.

The variables adopted in this report are interdependent and together result in a valuation conclusion that in our opinion is reasonable having regard to our stated definition/premise of value, valuation scope, date and purpose, and results of applicable cross-checks. Accordingly, it is not appropriate to consider changing any variable(s) in isolation.

This engagement is deemed by APES 225 Valuation Services to be a Valuation Engagement and was prepared in compliance with same.

In assessing whether the Proposed Transaction is reasonable, we first considered whether the Proposed Transaction is fair. Additionally, we have compared the potential advantages and disadvantages of the Proposed Transaction to Mackay Sugar shareholders and assessed whether the advantages outweigh the disadvantages. The advantages and disadvantages in relation to the Proposed Transaction are summarised in **Section 12.4**.

Additionally, we have given due consideration to relevant matters in other guidelines, including Regulatory Guide 112 'Independence of Experts' issued by ASIC.

#### 12.1.2 Related Party Financial Benefits

For the avoidance of doubt, we address each of the related party financial benefits as follows:

- **Issuance of the CPS:** in our fairness assessment, and in our consideration of the advantages and disadvantages of the Proposed Transaction;
- **Shareholder Loan:** in our consideration of the advantages and disadvantages of the Proposed Transaction; and
- **Potential increase in the Shareholder Loan related to indemnity claims:** in our consideration of the advantages and disadvantages of the Proposed Transaction.

### 12.2 Opinion on the Proposed Transaction

In our opinion, the **Proposed Transaction is fair and reasonable** for the Voting Shareholders and Investment Shareholders of Mackay Sugar.

In particular:

- **The Proposed Transaction is fair:** since the value of a Mackay Sugar share after the Proposed Transaction (minority basis) is greater than the value of a Mackay Sugar share prior to the Proposed Transaction (controlling basis) (refer **Section 12.3**); and
- **The Proposed Transaction is reasonable:** since it is fair. Additionally, the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction (refer **Section 12.4**).

Additionally, the related party financial benefits associated with the Proposed Transaction are either:

- Included in our fairness assessment, and by extension, are fair in the context of the Proposed Transaction; or
- Are advantageous to shareholders in Mackay Sugar.

Related party financial benefits are discussed in **Section 1.3.2** and **Section 1.4.2**.



## 12.3 The Proposed Transaction is Fair

### 12.3.1 Ordinary Share Basis

Summarised below is a comparison of the assessed value of an assumed Ordinary Share in Mackay Sugar before the Proposed Transaction (on a controlling basis) and after the Proposed Transaction from the perspective of the pre-existing Shareholders (on a minority basis):

| Mackay Sugar<br>Assessed Value Cents per Ordinary Share |   |      |   |      |
|---|---|------|---|------|
|   | Pre Proposed Transaction<br>Controlling Basis |      | Post Proposed Transaction<br>Minority Basis |      |
|   | Low   | High | Low   | High |
| Ordinary Shares   | nil or nominal                                |      | 1.0   | 10.4 |

Source: Crowe Horwath Calculations

Since the value of a Mackay Sugar share after the Proposed Transaction is greater than the value of a Mackay Sugar share prior to the Proposed Transaction, the **Proposed Transaction is fair** for Mackay Sugar's Shareholders. The **Proposed Transaction is therefore also Reasonable.**

Notwithstanding that our valuation conclusion for the pre-transaction scenario is nil or nominal, the methodologies adopted resulted in values that are implicitly on a controlling basis and therefore include a premium for control (for pre-transaction scenario). This is because, for pre-transaction scenario, we considered all of Mackay Sugar's cash flows and assets without the application of any discounts for lack of control / minority interest discounts.

Additionally, pre-existing shareholders in Mackay Sugar are effectively receiving a premium for relinquishing their collective control of Mackay Sugar under the Proposed Transaction (on the basis that their shares in Mackay Sugar will be of greater value after the Proposed Transaction is implemented).

The adopted range, whilst wide, is representative of the uncertainty that Mackay Sugar faces, predominantly with respect to sugar prices, foreign exchange rates and the operational performance of the mills (cognisant of the state of repair of its core operating equipment).

In our valuation after the Proposed Transaction, we considered the NPV of the \$10 million in CPS dividends as a surplus liability. Accordingly, our fairness assessment addresses the related party financial benefit related to the issuance of the CPS.

For the avoidance of doubt, we note that the above fairness assessment does not include the Related Party Financial Benefit related to the Shareholder Loan and any associated indemnity claims. These have been considered in our reasonableness assessment.

### 12.3.2 Voting Shares and Investment Shares

As discussed in **Section 12.1.1**, we assessed the Proposed Transaction assuming that the Voting Shares and Investment Shares prior to the Proposed Transaction were in fact Ordinary Shares.

This assumption did not impact our conclusion on fairness as the restrictions pertaining to each of these classes of shares only makes them less valuable than an Ordinary Share (prior to the Proposed Transaction). In other words, if lower valuations for each had been adopted, the Proposed Transaction would be even more fair.

## 12.4 The Proposed Transaction is Reasonable

As the **Proposed Transaction is fair**, it is also reasonable for Mackay Sugar Shareholders.

Furthermore, in our opinion, **the advantages outweigh the disadvantages of the Proposed Transaction**.

The advantages and disadvantages of the Proposed Transaction are set out below.

### 12.4.1 Advantages to Shareholders from the Proposed Transaction

The primary advantages to the Shareholders in proceeding with the Proposed Transaction are as follows:

**a) *The Proposed Transaction is fair***

As set out above, the Proposed Transaction is fair.

**b) *The Proposed Transaction brings much needed funding***

The Proposed Transaction will provide Mackay Sugar with much needed funding investment in necessary capital equipment and maintenance, to repay certain liabilities and also for general working capital purposes, with a view to improving the operating and financial performance of the business.

**c) *Repayment of outstanding grower contributions***

The Proposed Transaction will enable the repayment around \$18.8 million in outstanding grower contributions, 50% within 30 days and 50% within twelve months.

**d) *Incentivisation of desired behaviours associated with the change in the cane payment formula***

The proposed change in the cane payment formula will realign growers' economic rewards to cane volumes and underlying sugar quality, and Mackay Sugar's economic rewards to milling efficiency.

**e) *Expectation of improved returns for Shareholders of Mackay Sugar under the changes to the cane payment formula***

The reversion to the CCS Cane Price Formula, currently in use in the rest of the Australian sugar industry and previously used by Mackay Sugar, will cause a reduction in the cane supply price, which will benefit the Shareholders and Mackay Sugar. However, grower suppliers are expected to gain more than this reduction from improved mill performance associated with investment in mill restoration following implementation of the Proposed Transaction.

Over the five seasons 2013 to 2017, Mackay Sugar estimate the cane price would have been on average around \$0.50/t of cane less under the CCS formula. However with the proposed investment in the mills restoring performance to former levels, grower suppliers would receive shorter milling seasons, resulting in increased growing seasons. In turn, this would result in higher crop yields and higher aggregated cane payments to growers. The benefit of this to the grower suppliers is higher CCS cane in the current season and more cane the following season. Mackay Sugar estimate the benefit of this is around \$0.95/t cane. In addition, Mackay Sugar estimate higher mill reliability would have delivered around another \$1.00/t cane on average to grower suppliers over this period from cane that was left unharvested (standover cane) because of reduced mill performance. In 2016 and 2017, around 860,000 tonnes of cane was not harvested and became standover cane in the following season. Having the mill capacity restored are expected to benefit both grower suppliers and shareholders of Mackay sugar.

Hence, from a grower supplier perspective, the trade-off of a lower cane price under CCS is anticipated to be offset by better mill performance delivering higher CCS and more cane crushed. From a Mackay Sugar / shareholder perspective, a lower cane price and higher cane throughput at the margin delivers increased profits.

**f) Restructuring of Mackay Sugar's borrowings**

A condition precedent of the Proposed Transaction is that Mackay Sugar agrees with its lenders (senior and Corporate Noteholders) on the steps to be taken to restructure its borrowings. The restructuring of Mackay Sugar's borrowings, as set out in **Section 1.1.3 and Section 2.4**, will enhance Mackay Sugar's ability to meet its capital, maintenance and operational obligations going forward. Notwithstanding, the additional borrowings could place more financial burden on Mackay Sugar in terms of principal and interest payments in the future, should operational cash flows not improve.

**g) Sale of the loss-making Mossman mill**

A condition precedent of the Proposed Transaction is that the loss-making Mossman Mill will be sold. This will reduce the financial burden of the Mossman Mill on the remaining business post-transaction (notwithstanding the net amount Mackay Sugar will/may pay to sell the Mossman Mill).

As at the date of this Report, Mackay Sugar had entered into a Put and Call Option with FNM, whereby, if exercised, FNM and its associates would pay Mackay Sugar purchase consideration for the Mossman Mill assets net of Mackay Sugar making contributions / potential contributions towards certain liabilities and contingent liabilities. The net impact of these items is an amount payable by Mackay Sugar which is estimated to be approximately of \$1.5 million for employee provisions and an additional \$2.1 million should the Mossman Mill shut down prior to 31 December 2020.

**h) Improved grower, staff and supplier confidence**

The financial and other support being provided by Nordzucker under the Proposed Transaction is likely to result in improved grower, staff and supplier confidence. In the absence of the Proposed Transaction, it is possible that a further deterioration in confidence of these key stakeholders could materially and adversely impact Mackay Sugar's future operations.

**i) Management, engineering and corporate support of Nordzucker**

Nordzucker is a sophisticated, large and successful global sugar business that has relevant Management, engineering and corporate expertise to support Mackay Sugar.

**j) Agronomic support from Nordzucker to growers**

In addition to providing support directly to Mackay Sugar from a milling perspective, Nordzucker has agronomic expertise and resources to share with growers.

***k) A strong underlying balance sheet***

Whilst further financial support from Nordzucker above the combined \$120 million in debt and equity funding under the Proposed Transaction has not been committed, Nordzucker has a substantial balance sheet (cash as at 30 November 2018 of € 395 million), and post-transaction, will have a vested interest in the success of Mackay Sugar.

***l) As milling performance improves, crop yields and quality should improve (other things being equal)***

If the capital investment in Mackay Sugar improves mill performance, as is expected, there will also be flow through impacts at the grower and farm level. These positive impacts include the ability to optimise the timing of harvests to improve sugar content and also crop growth / cane volumes. In turn, these improvements will then benefit the mills, and so on and so forth.

***m) The expected turnaround of Mackay Sugar's operations and consequential improved financial health as would be reflected in its financial statements***

Mackay Sugar's most recent Half Year Independent Auditor's Review Report for the period ended 30 November 2018 included an emphasis of matter in respect of Mackay Sugar continuing to trade as a going concern, and indicating that certain assets may need to be disposed of outside of the ordinary course of business.

The expected turnaround of Mackay Sugar's operations and consequential improved financial health as would be reflected in its financial statements, as a result of the implementation of the Proposed Transaction, should remove doubt in relation to the company continuing to operate as a going concern, and also mitigate future risk of impairment of its assets.

***n) An opportunity to participate in future potential upside associated with expected sugar price increases***

There is a real chance that if the Proposed Transaction does not proceed, certain growers and / or Mackay Sugar may not participate in the potential future upside associated with expected sugar price increases. The Proposed Transaction provides growers and Mackay Sugar with greater ability to participate in any upside by better positioning Mackay Sugar from an operational perspective.

***o) Continued positive impact on the local community and contribution to the local, State and National economy***

Implementation of the Proposed Transaction increases the chances of Mackay Sugar continuing to be an important contributor to the various communities and economies it impacts.

***p) Existing shareholders in Mackay Sugar will retain a blocking stake post-transaction***

Under the terms of the Proposed Transaction, existing Shareholders will retain a combined 30% interest in Mackay Sugar, and have three Grower Directors on the Board. This will enable them to block special resolutions.

***q) Voting Shareholders will obtain income and capital rights***

Voting Shareholders will obtain income and capital rights in respect of the conversion of their Voting Shares to Ordinary Shares. This will entitle those shares to potential future dividends, returns of capital in the ordinary course of business and capital proceeds upon wind up. The resultant Ordinary Shares will stand equal with all other shares post-transaction once the Nordzucker preference dividend is paid.

**r) Investment Shareholders will obtain voting rights**

Investment Shareholders will obtain voting rights in respect of the conversion of their Investment Shares to Ordinary Shares. The resultant Ordinary Shares will stand equal with all other shares post-transaction once the Nordzucker preference dividend is paid.

**s) Changes under the New Constitution**

Voting Shares and Investment Shareholders may consider the changes under the Constitution to be net favourable, including the Reserved Matters voting protocols, which increase the voting powers of the pre-existing Shareholders in the situations set out in **Section 1.1.4** and **Section 2.5**.

**t) Nordzucker is a grower-owned business**

Being a well-established successful grower-owned business, Nordzucker is experienced in efficiently producing sugar whilst working with and attending to the needs of growers in a sustainable and successful long-term manner.

**u) The issuance of the CPS is commercial in the context of the overall support being provided by and risk being taken on by Nordzucker**

Firstly, the issuance of the CPS provides much needed capital and is critical to the overall Proposed Transaction and future success of Mackay Sugar.

Secondly, the preferential dividends under the CPS are, in our opinion, commercial in the context of the overall supporting being provided by and risk being taken on by Nordzucker. In support of this conclusion, our fairness assessment addresses the preferential dividends and results in a conclusion that the Proposed Transaction is fair.

**v) The ability to roll up indemnity claims into the Shareholder Loan is a commercial benefit to Mackay Sugar (as opposed to Nordzucker)**

In ordinary circumstances, indemnity claims in respect of transactions are payable immediately. Hence, the ability to defer payment of these potential claims by rolling them into the Shareholder Loan is a benefit to Mackay Sugar. Additionally, the terms of the Shareholder Loan, are more favourable than otherwise available to Mackay Sugar in the market (i.e. at an interest rate comparable with Mackay Sugar's senior borrowings for debt that is subordinated). Furthermore, the gross up mechanism detailed in the Explanatory Memorandum is not disadvantageous. It ensures a full contribution up to the indemnity cap of \$4.5 million would effectively be made by the 30% shareholders.

**w) The Shareholder Loan is a commercial benefit to Mackay Sugar (as opposed to Nordzucker)**

Typically, due to their second-standing nature, subordinated borrowings attract a higher interest rate than senior borrowings (to compensate the lender for the higher repayment risk being taken on).

In the case of the Shareholder Loan, Mackay Sugar will pay interest at the same rate as the senior borrowings (in respect of the senior debt capital expenditure facility), for a loan which is subordinated (i.e. ranks behind senior debt). This is a benefit to Mackay Sugar associated with the Proposed Transaction.

**x) The Directors unanimously support the Proposed Transaction**

In accordance with Section 2.1(a) of the Explanatory Memorandum, the Directors of Mackay Sugar are of the opinion that the Proposed Transaction is in the best interests of Shareholders, and unanimously recommend that Shareholders vote in favour of the various resolutions.

**y) *The future if the Proposed Transaction does not proceed is highly uncertain, and likely to be grim***

If the Proposed Transaction does not proceed, Mackay Sugar will face a range of challenges in respect of meeting its operating and financial requirements, which may impact the ability of Mackay Sugar to continue operating as a going concern. In this case, it is likely that an external Administrator would be appointed.

**z) *There are no known alternatives***

As at the date of this Report, the Proposed Transaction is the only recapitalisation or other alternative that is known to the Directors following a lengthy process to identify other potential options. The Directors do not expect any other viable alternatives to emerge in the short time frame relevant to Mackay Sugar's sensitive situation.

#### **12.4.2 Disadvantages to Shareholders from the Proposed Transaction**

The primary disadvantages to the Shareholders in proceeding with the Proposed Transaction are as follows:

**a) *Dilution of existing shareholders with Nordzucker to obtain control***

The issuance of shares to Nordzucker will dilute the interests of existing Shareholders, and will result in Nordzucker assuming control of Mackay Sugar by virtue of obtaining a 70% voting interest.

**b) *Nordzucker will obtain rights to certain dividends in preference to other Shareholders***

Under the Proposed Transaction, the \$33.33 million in preference dividends to Nordzucker equates to an effective preference of \$10 million in dividends that would otherwise have been payable to other Ordinary Shareholders post-transaction (\$33.33 million x 30% = \$10 million).

**c) *Uncertainty in respect of the impacts associated with the changes to the cane payment formula***

Whilst the changes to the cane payment formula are anticipated to better align miller and grower behaviours with economic rewards to each, the existing and proposed cane payment formula are each subject to a range of factors that are difficult to predict.

**d) *Changes under the New Constitution***

Voting Shares and Investment Shareholders may consider the changes under the Constitution to be net unfavourable.

**e) *Nordzucker has predominantly sugar beet experience***

Notwithstanding Nordzucker's scale and success as a sugar producer, its history and experience is in sugar beet as opposed to sugar cane. Whilst Nordzucker has many positive factors to contribute to Mackay Sugar, as set out above, there are differences in the both the growing and milling of cane as compared to beet.

**f) *Uncertainty in respect of tax consequences to Shareholders***

There is uncertainty as to the tax consequences to Shareholders associated with the Proposed Transaction. In accordance with Section 10.2 of the Explanatory Memorandum, Mackay Sugar has applied to the Australian Taxation Office ("ATO") for a private binding tax ruling as to the nature of those consequences, if any. As at the date of this Report, the ATO had not advised Mackay Sugar of the outcome of the ruling.

**g) Potential emergence of a superior alternative**

Some Shareholders may consider that a superior alternative opportunity to the Proposed Transaction will emerge. Notwithstanding this potential view, in our opinion, and in the opinion of the Directors, it is highly unlikely given the diligent, global and protracted process that Mackay Sugar and its advisors have been through, that resulted in the Proposed Transaction being the only presently available option. As at the date of this Report, the Directors were not aware of any imminent superior alternatives to the Proposed Transaction.

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## **13 Qualifications, Declarations and Consents**

### **13.1 Qualifications**

Crowe Horwath provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert reports concerning mergers and acquisitions, takeovers and capital reconstructions.

The executives responsible for preparing this Report on behalf of Crowe Horwath are Mr Nathan Timosevski, B.Bus, CA, A.Fin, Ms Nicole Vignaroli, MAppFin, BBus, BA, F.Fin, Aff.CA and Mr Ross Patane, BBus, CA. Nathan, Nicole and Ross have significant experience in relevant corporate advisory matters, and are Representatives in accordance with the Australian Financial Services Licence No. 239170 held by Crowe Horwath under the Corporations Act 2001 (Cth).

### **13.2 Disclaimers**

It is not intended that this Report be used or relied upon for any purpose other than as an expression of Crowe Horwath's opinion as to whether the Proposed Transaction is fair and reasonable to the Shareholders of Mackay Sugar, and also our views in respect of the Related Party Financial Benefits. Crowe Horwath expressly disclaims any liability to any person who relies or purports to rely on the Report for any other purpose.

This Report has been prepared by Crowe Horwath with care and diligence and statements and opinions given by Crowe Horwath in this Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading.

Neither Crowe Horwath, nor any member or employee thereof, undertakes responsibility to any person, other than the shareholders and the Independent Directors of Mackay Sugar, in respect of this Report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Transaction.

Other than this report, Crowe Horwath has not been involved in the preparation of the any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Notice of Meeting, Explanatory Memorandum or other documents prepared in respect of the Proposed Transaction.

### **13.3 Declarations**

Crowe Horwath does not have at the date of this Report nor has had any shareholding in or other relationship with Mackay Sugar, that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction. Crowe Horwath had no part in the formulation of the Proposed Transaction. Crowe Horwath's only role has been the preparation of this Independent Expert's Report. Crowe Horwath considers itself independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

Crowe Horwath will receive a fee in the vicinity of \$160,000 (plus GST) based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the Proposed Transaction. Crowe Horwath will receive no other benefit for the preparation of this Report.

Mackay Sugar has agreed that to the extent permitted by law that it will indemnify Crowe Horwath employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this Report. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct. Mackay Sugar has also agreed to indemnify Crowe Horwath and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Crowe Horwath or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct in which case Crowe Horwath shall bear such costs.

Advance drafts of this Report (and parts of it) were provided to Mackay Sugar, its advisers and ASIC. Certain changes were made to this Report as a result of the circulation of the drafts. There was no alteration to the methodology, no material change in our valuation of Mackay Sugar, and no changes in our conclusions or recommendations made to Mackay Sugar shareholders as a result of issuing the drafts.

### **13.4 Consents**

Crowe Horwath consents to the issuing of this Report in the form and context in which it is to be included in the Notice of Meeting and Explanatory Memorandum to be sent to Mackay Sugar Shareholders. Neither the whole nor any part of this Report nor any reference thereto may be included in any other document without the prior written consent of Crowe Horwath as to the form and context in which it appears.

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# Appendix 1 – Financial Services Guide

Version dated: 1 November 2018

Crowe Horwath Corporate Finance (Aust) Ltd is the corporate finance arm of Findex Group, and was engaged by the Independent Directors to prepare this Report. On 2 April 2019, Crowe Horwath Corporate Finance (Aust) Ltd changed its name to Findex Corporate Finance (Aust) Ltd. For the avoidance of doubt, the legal entity, all ownership, licensing and staffing remained the same. The only change was a change to using two brands – both Crowe Horwath and Findex, as relevant.

Findex Corporate Finance (Aust) Ltd ABN 95 001 508 363 (“we” or “us” or “our” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

## Financial Services Guide

Before we provide general financial product advice we are required to provide certain information about us to you. This Financial Services Guide (FSG) is designed to outline the types of products we can provide to you under our financial services license.

This FSG includes information about:

- Who is Findex Corporate Finance (Aust) Ltd?
- What kind of financial services are you authorised to provide to me?
- General Financial Product Advice
- Does Findex Corporate Finance (Aust) Ltd have any relationships or associations with financial product issuers?
- How is Findex Corporate Finance (Aust) Ltd paid to produce a report
- Does Findex Corporate Finance (Aust) Ltd get paid for referring clients to invest in the products associated with your reports?
- Do I pay for the financial services provided?
- Compensation arrangements
- Who can I complain to if I have a complaint about the financial services provided?

## Who is Findex Corporate Finance (Aust) Ltd?

Although you may only see the local face of our business, we are part of Findex Group Limited operating in city and regional areas.

Our contact details are as follows:

Findex Corporate Finance (Aust) Ltd:  
Level 15, 1 O'Connell Street  
SYDNEY NSW 2000  
Telephone: (02) 9292 2155

What kinds of financial services are you authorised to provide to me? We are authorised to carry on a financial services business to, amongst other things; provide financial product advice for the following classes of financial products:

- Derivatives; and
- Securities

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person or entity. Our report will include a description of the circumstances of our engagement and identify the person or entity who has engaged us. You have not engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

## **General Financial Product Advice**

In our report we provide general financial product advice, not personal financial product advice, because the advice has been prepared without taking into account your personal objectives, financial situation or needs.

You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs.

### **Does Findex Corporate Finance (Aust) Ltd have any relationships or associations with financial product issuers?**

Findex Corporate Finance (Aust) Ltd operates as part of the business advisory and professional accounting practice of Findex, which is a part of the Findex Group. Findex Group Limited is our ultimate holding company.

Findex Corporate Finance (Aust) Ltd and any of its associated entities may at any time provide professional or financial services to financial product issuers in the ordinary course of our business.

How is Findex Corporate Finance (Aust) Ltd paid to produce a report?

We will receive a fee in the vicinity of \$160,000 for the preparation of the report. This fee will be paid by the person or entity which engages us to provide the report. The fee has not affected the opinion we have expressed in the report.

Except for the fee referred to above, neither Findex Corporate Finance (Aust) Ltd, nor any of its partners, employees or related entities, receives any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

### **Does Findex Corporate Finance (Aust) Ltd get paid for referring clients to invest in the products associated with your reports?**

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are engaged to provide.

We do not receive commissions or any other benefits for referring clients in connection with the underlying financial product and/or financial service that is the subject of the reports we are engaged to provide.

### **Do I pay for the financial services provided?**

You do not pay us a fee for the production of a report. It is the responsibility of the person or entity which has engaged us to produce the report to meet this cost.

## **Compensation arrangements**

We have professional indemnity insurance in place that satisfies the requirements for compensation arrangements under section 912B of the Corporations Act.

### **Who can I complain to if I have a complaint about the financial services provided?**

#### *Internal complaints resolution process*

As a holder of an AFSL, we are required to have a system for handling complaints from persons to whom we provide financial product advice. If you have any complaint about the service provided to you, please contact us and tell us about your complaint.

If your complaint is not satisfactorily resolved within three business days, please contact the Complaints Officer, either via telephone on (02) 9262 2155, or in writing and addressed to:

Dispute Manager Findex Group Limited PO Box R1851  
Royal Exchange NSW 1225

*Referral to external dispute resolution scheme*

If we have not resolved your complaint within 45 days, or the issue has not been resolved to your satisfaction, you can lodge a complaint with the Australian Financial Complaints Authority (AFCA).

AFCA provides fair and independent financial services complaint resolution that is free to consumers. They can be contacted on 1800 931 678, [www.afca.org.au](http://www.afca.org.au), via email at [info@afca.org.au](mailto:info@afca.org.au) or in writing to Australian Financial Complaints Authority, GPO Box 3, Melbourne VIC 3001.

**Contact details**

If you have any further questions about the financial services Findex Corporate Finance (Aust) Ltd provides, please contact our office.

Findex Corporate Finance (Aust) Ltd ABN 95 001 508 363  
Australian Financial Services Licence no. 239170  
Level 15, 1 O'Connell Street  
SYDNEY NSW 2000  
Ph: (02) 9292 2155

## Appendix 2 – Glossary

| Defined Term   | Meaning   |
|--|---|
| Act  | Corporations Act 2001   |
| Adjusted Financial Model                                 | Adjusted financial model by Crowe Horwath for the purpose of the IER valuation  |
| APES   | Accounting Professional and Ethical Standards 225 Valuation Services  |
| ASIC   | Australian Securities and Investments Commission  |
| ASX  | Australian Securities Exchange  |
| ATO  | Australian Tax Office   |
| AUD  | Australian Dollar   |
| Base Financial Model – Nordzucker Case / Nordzucker Case | Model reflecting the expected financial performance and cash flows of Mackay Sugar if the Proposed Transaction was to proceed |
| Base Financial Model - Status Quo Case / Status Quo Case | Model reflecting the financial performance and cash flows of Mackay Sugar if the Proposed Transaction did not proceed.        |
| BRL  | Brazilian Real  |
| CAGR   | Compound annual growth rate   |
| CAPM   | Capital asset pricing model   |
| CCS  | Commercial cane sugar   |
| CEO  | Chief Executive Officer   |
| China  | People's Republic of China  |
| Crowe Horwath  | Crowe Horwath Corporate Finance (Aust) Ltd (now known as Findex Corporate Finance (Aust) Ltd)                                 |
| Crushing Season  | Cane crushing occurs from June to November  |
| Company  | Mackay Sugar Limited  |
| Corporate Noteholders                                    | Holders of \$50 Million of Corporate Notes issued by Mackay Sugar on 20 March 2013  |
| Capex  | Capital expenditure   |
| CPS  | Converting Preference Shares  |
| CY   | Years ended 31 December   |
| DA   | Development Application   |

|                            |   |
|----------------------------|---|
| DCF                        | Discounted Cash Flow Method   |
| EBIT                       | Earnings before interest and tax  |
| EBITDA                     | Earnings before interest, tax depreciation and amortisation   |
| EGM                        | Extraordinary General Meeting   |
| f                          | Forecast period   |
| FIRB                       | Foreign Investment Review Board   |
| FME                        | Future Maintainable Earnings  |
| FNM                        | Far Northern Milling Pty Ltd  |
| FY                         | Financial Year  |
| Growers Choice Legislation | The amendments to the Sugar industry act that gives the growers the right to choose the marketer of the sugar they produce. |
| GEI                        | Grower Economic Interest  |
| GST                        | Goods and services tax  |
| H1FY19(a)                  | Six month period to 30 November 2018  |
| ICE                        | Intercontinental Exchange   |
| IPS                        | International Polarisation Scale  |
| JV                         | Sugar Australia joint venture   |
| Independent Consultant     | Independent consulting firm which performed the impairment assessment on the Sugar Australia JV                             |
| Mackay Sugar               | Mackay Sugar Limited  |
| MEI                        | Miller Economic Interest  |
| Mossman Mill               | Mosman sugar milling business   |
| M&M                        | M&M Molasses Pty Ltd  |
| Mt                         | Million tonnes  |
| NAB                        | National Australia Bank Ltd   |
| n/a                        | Not applicable  |
| n/m                        | Not meaningful  |
| NOM                        | Notice of Meeting   |
| Nordzucker                 | Nordzucker AG   |



|                                  |   |
|----------------------------------|---|
| NPAT                             | Net profit after tax  |
| NPBT                             | Net profit before tax   |
| NPV                              | Net present value   |
| NSW                              | New South Wales   |
| NSX                              | National Stock Exchange   |
| NZSC                             | New Zealand Sugar Company Pty Ltd   |
| Ordinary Shares                  | Ordinary shares in Mackay Sugar   |
| Oriana Shipping                  | Oriana Shipping Co Pte Ltd  |
| OTC                              | Over the Counter  |
| Preference Dividends             | Nordzucker's entitlement to the first \$33.33 million in Mackay Sugar dividends declared. |
| Proposed Transaction             | The transaction as described in Section 2.  |
| PRS                              | Percentage Recoverable Sugar  |
| QCS                              | Queensland Commodity Services Pty Ltd   |
| QLD                              | Queensland  |
| Oriana shipping                  | Singaporean registered company which operates a refined sugar transport vessel            |
| QSL                              | Queensland Sugar Limited  |
| RBA                              | Reserve Bank of Australia   |
| Regulatory Guide 111             | Regulatory Guide 111 'Content of Expert Reports   |
| Regulatory Guide 112             | Regulatory Guide 112 'Independence of Experts   |
| Regulatory Guide 170             | Regulatory Guide 170 'Prospective Financial Information'                                  |
| Related Party Financial Benefits | As described in Section 1.2.2   |
| Report                           | Independent Expert's Report   |
| Reserved matters                 | Voting protocols, designed to provide additional protection to growers                    |
| Resolutions                      | Resolutions as described in Section 1.1.3 which shareholders are to vote on               |
| Section 606                      | Section 606(1) of the Act   |
| Section 611                      | Section 611(7) of the Act   |
| Section 640                      | Section 640 of the Act  |

|                     |  |
|---------------------|--|
| Shares/Shareholders | As described in Section 1.1  |
| Shareholder Loan    | Nordzucker will, subject to certain conditions precedent, provide a shareholder loan of up to \$60 million as part of the Proposed Transaction |
| SRP                 | Specific risk premium  |
| Sugar Australia JV  | Sugar Australia Joint Venture  |
| USD                 | United States Dollar   |
| Valuation Date      | 31 May 2019  |
| VWAP                | Volume weighted average price  |
| WACC                | Weighted average cost of capital   |
| YOY                 | Year on year   |

## Appendix 3 – Sources of Information

Sources of information utilised and relied upon in the preparation of this Report include:

### **Transaction Documentation**

- Mackay Sugar Limited and Nordzucker AG - Share Subscription Agreement dated 8 February 2019;
- Draft Notice of Meeting and Explanatory Memorandum;
- Draft Mossman Mill Asset Sale Agreement;
- Summary Term sheet and Mackay Sugar credit approved term sheet;
- Transaction costs summary;
- KPMG Draft Vendor Diligence Report dated 8 January 2018 and Addendum dated 28 May 2018; and
- Mackay Sugar public announcements.

### **Mackay Sugar Limited**

- Constitution of Mackay Sugar Limited;
- Overview of share classes;
- Share holder register;
- Shareholder trading history;
- Board meeting minutes and MSL board paper;
- Statutory and Management Accounts FY16(a), FY17(a), FY18(a) and H1FY19(a);
- Interim six monthly financial reports for H1FY17(a) and H1FY18(a);
- Discussion with Directors and management of Mackay Sugar Limited; and
- Other financial and operating information provided by Mackay Sugar Limited.

### **Other Entities**

- Sugar Australia JV 31 December 2018 Financial Statements
- New Zealand Sugar Company 31 December 2018 Financial Statements;
- Mossman Mill provision calculation;
- Mossman Mill management forecasts for the month of June 2019;
- Annual Reports and Management Accounts;
- Sugar Australia – Independent Valuation Reports and supporting financial models; and
- Other financial and operating information provided by Mackay Sugar Limited.

### **Financial Models and Management Analysis**

- Management forecast “Nordzucker Case” cash flow models regarding periods FY20(f) through FY24(f); and
- Management forecast “Status Quo Case” cash flow models regarding periods FY20(f) through FY24(f).

### **Industry and Economic Research**

- USDA report on Sugar World markets and Trade, dated November 2018;
- USDA Report on Agricultural Projections to 2028, dated March 2019;
- North Dakota state university report on 2017 Outlook of the US and World Sugar Markets, 2016-2026, dated March 2017;
- IBISWorld company report on Mackay Sugar Limited, dated May 2018;
- IBISWorld industry report on Sugar manufacturing in Australia, dated January 2019;
- IBISWorld industry report on Sugar Cane Growing in Australia, dated March 2018;
- Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES) report on commodity forecasts and outlook, dated March 2019;
- OECD report on Agricultural outlook 2016-2025, dated 2016;
- Bloomberg analyst consensus forecasts – AUD/USD exchange rate and sugar price;
- Capital IQ financial research; and
- Discussion with Directors and management of Mackay Sugar Limited.

[This space has intentionally been left blank.]

## Appendix 4 – Comparable Trading Multiples

Summarised below are valuation metrics of foreign and Australian listed companies with operations similar to Mackay Sugar:

| Mackay Sugar                                   |                |         |        |                         |                      |                 |                 |                       |                      |                 |                 |                                |                      |                 |                 |
|--|----------------|---------|--------|-------------------------|----------------------|-----------------|-----------------|-----------------------|----------------------|-----------------|-----------------|--------------------------------|----------------------|-----------------|-----------------|
| Comparable Company Trading Multiples           |                |         |        |                         |                      |                 |                 |                       |                      |                 |                 |                                |                      |                 |                 |
| Company Name                                   | Country        | Mkt Cap | EV     | EBITDA Multiple (times) |                      |                 |                 | EBIT Multiple (times) |                      |                 |                 | Normalised PE Multiple (times) |                      |                 |                 |
|  |                |         |        | 1 Year Historical       | Current (Hist / Est) | 1 Year Estimate | 2 Year Estimate | 1 Year Historical     | Current (Hist / Est) | 1 Year Estimate | 2 Year Estimate | 1 Year Historical              | Current (Hist / Est) | 1 Year Estimate | 2 Year Estimate |
|  |                | (AUDm)  | (AUDm) | (x)                     | (x)                  | (x)             | (x)             | (x)                   | (x)                  | (x)             | (x)             | (x)                            | (x)                  | (x)             | (x)             |
| <b>Cane</b>                                    |                |         |        |                         |                      |                 |                 |                       |                      |                 |                 |                                |                      |                 |                 |
| Wilmar International Limited                   | Singapore      | 21,831  | 50,067 | 18.4 x                  | 13.1 x               | 13.6 x          | 12.6 x          | 30.2 x                | 18.6 x               | 20.7 x          | 18.8 x          | 12.7 x                         | 13.4 x               | 12.6 x          | 11.4 x          |
| Cosan S.A.                                     | Brazil         | 6,822   | 9,918  | 10.3 x                  | 16.1 x               | 4.8 x           | 4.5 x           | 13.3 x                | 24.3 x               | 7.7 x           | 6.8 x           | 14.1 x                         | 11.2 x               | 12.0 x          | 10.1 x          |
| Südzucker AG                                   | Germany        | 4,541   | 7,752  | 6.6 x                   | 14.8 x               | 12.1 x          | 7.0 x           | 11.2 x                | n/m                  | n/m             | 14.1 x          | 12.9 x                         | n/m                  | n/m             | 14.8 x          |
| São Martinho S.A.                              | Brazil         | 2,529   | 3,678  | 9.2 x                   | 5.8 x                | 5.9 x           | 5.6 x           | 22.7 x                | 12.4 x               | 12.8 x          | 11.7 x          | 24.2 x                         | 13.9 x               | 14.1 x          | 13.9 x          |
| Shree Renuka Sugars Limited                    | India          | 404     | 383    | n/m                     | 2.1 x                | n/a             | n/a             | n/m                   | 63.1 x               | n/a             | n/a             | n/m                            | n/m                  | n/a             | n/a             |
| Bajaj Hindusthan Sugar Limited                 | India          | 204     | 1,229  | 21.8 x                  | 20.5 x               | n/a             | n/a             | 79.4 x                | n/m                  | n/a             | n/a             | n/m                            | n/m                  | n/a             | n/a             |
| Nanning Sugar Industry Co., Ltd.               | China          | 381     | 1,165  | 109.2 x                 | n/m                  | n/a             | n/a             | n/m                   | n/m                  | n/m             | n/m             | n/m                            | n/m                  | n/a             | n/a             |
| Kaset Thai International Sugar Corporation Put | Thailand       | 970     | 1,525  | 12.6 x                  | n/a                  | n/a             | n/a             | 24.4 x                | n/a                  | n/a             | n/a             | 25.3 x                         | n/a                  | n/a             | n/a             |
| Guangxi Yuegui Guangye Holdings Co., Ltd.      | China          | 729     | 619    | 11.8 x                  | 10.8 x               | n/a             | n/a             | 32.8 x                | 20.5 x               | n/a             | n/a             | 41.0 x                         | 39.4 x               | n/a             | n/a             |
| JDW Sugar Mills Limited                        | Pakistan       | 184     | 604    | 19.0 x                  | n/a                  | n/a             | n/a             | 35.2 x                | n/a                  | n/a             | n/a             | n/m                            | n/a                  | n/a             | n/a             |
| Buriram Sugar Public Company Limited           | Thailand       | 228     | 602    | 13.7 x                  | 21.1 x               | n/a             | n/a             | 18.6 x                | 39.1 x               | n/a             | n/a             | 9.5 x                          | 18.4 x               | 17.6 x          | 15.7 x          |
| Triveni Engineering & Industries Limited       | India          | 382     | 737    | 12.8 x                  | 11.6 x               | n/a             | n/a             | 16.0 x                | 14.1 x               | n/a             | n/a             | 15.5 x                         | 8.5 x                | n/a             | n/a             |
| Dhampur Sugar Mills Limited                    | India          | 309     | 652    | 8.8 x                   | 7.0 x                | n/a             | n/a             | 10.6 x                | 8.0 x                | n/a             | n/a             | 9.8 x                          | 5.9 x                | n/a             | n/a             |
| Dalmia Bharat Sugar and Industries Limited     | India          | 194     | 339    | 7.0 x                   | 6.1 x                | n/a             | n/a             | 9.1 x                 | 7.6 x                | n/a             | n/a             | 7.6 x                          | 5.3 x                | n/a             | n/a             |
| Uttam Sugar Mills Limited                      | India          | 104     | 260    | 10.7 x                  | 7.4 x                | n/a             | n/a             | 13.5 x                | 8.6 x                | n/a             | n/a             | 29.4 x                         | 8.6 x                | n/a             | n/a             |
| Victorias Milling Company, Inc.                | Philippines    | 190     | 202    | 7.8 x                   | n/a                  | n/a             | n/a             | 12.8 x                | n/a                  | n/a             | n/a             | 9.0 x                          | n/a                  | n/a             | n/a             |
| <b>Min</b>                                     |                |         |        | <b>6.6 x</b>            | <b>2.1 x</b>         | <b>4.8 x</b>    | <b>4.5 x</b>    | <b>9.1 x</b>          | <b>7.6 x</b>         | <b>7.7 x</b>    | <b>6.8 x</b>    | <b>7.6 x</b>                   | <b>5.3 x</b>         | <b>12.0 x</b>   | <b>10.1 x</b>   |
| <b>Max</b>                                     |                |         |        | <b>109.2 x</b>          | <b>21.1 x</b>        | <b>13.6 x</b>   | <b>12.6 x</b>   | <b>79.4 x</b>         | <b>63.1 x</b>        | <b>20.7 x</b>   | <b>18.8 x</b>   | <b>41.0 x</b>                  | <b>39.4 x</b>        | <b>17.6 x</b>   | <b>15.7 x</b>   |
| <b>Average</b>                                 |                |         |        | <b>18.7 x</b>           | <b>11.4 x</b>        | <b>9.1 x</b>    | <b>7.4 x</b>    | <b>23.6 x</b>         | <b>21.7 x</b>        | <b>13.7 x</b>   | <b>12.8 x</b>   | <b>17.6 x</b>                  | <b>13.9 x</b>        | <b>14.1 x</b>   | <b>13.2 x</b>   |
| <b>Average (excl high and low)</b>             |                |         |        | <b>12.6 x</b>           | <b>11.3 x</b>        | <b>9.0 x</b>    | <b>6.3 x</b>    | <b>20.1 x</b>         | <b>18.2 x</b>        | <b>12.8 x</b>   | <b>12.9 x</b>   | <b>16.2 x</b>                  | <b>11.4 x</b>        | <b>13.4 x</b>   | <b>13.4 x</b>   |
| <b>Beet</b>                                    |                |         |        |                         |                      |                 |                 |                       |                      |                 |                 |                                |                      |                 |                 |
| Associated British Foods plc                   | United Kingdom | 35,380  | 34,834 | 10.3 x                  | 9.6 x                | 8.9 x           | 8.3 x           | 14.9 x                | 13.6 x               | 12.2 x          | 11.4 x          | 19.3 x                         | 18.1 x               | 16.2 x          | 15.0 x          |
| Rogers Sugar Inc.                              | Canada         | 656     | 1,024  | 9.2 x                   | 10.1 x               | 9.0 x           | 8.9 x           | 11.2 x                | 13.0 x               | 11.5 x          | n/a             | 12.6 x                         | 14.6 x               | 12.0 x          | n/a             |
| ASTARTA Holding N.V.                           | Netherlands    | 225     | 696    | 4.0 x                   | 7.8 x                | 6.1 x           | 4.2 x           | 6.1 x                 | 17.3 x               | 8.0 x           | 4.8 x           | 2.4 x                          | n/m                  | 5.5 x           | 2.6 x           |
| Nippon Beet Sugar Manufacturing Co., Ltd.      | Japan          | 353     | 360    | 6.8 x                   | 6.6 x                | n/a             | n/a             | 17.1 x                | 17.2 x               | n/a             | n/a             | 21.8 x                         | 20.1 x               | n/a             | n/a             |
| Rana Sugars Limited                            | India          | 10      | 183    | 24.1 x                  | 22.4 x               | n/a             | n/a             | 170.1 x               | n/m                  | n/a             | n/a             | n/m                            | n/m                  | n/a             | n/a             |
| DCM Shriram Industries Limited                 | India          | 70      | 151    | 7.2 x                   | 6.3 x                | n/a             | n/a             | 8.9 x                 | 7.6 x                | n/a             | n/a             | 5.8 x                          | 4.5 x                | n/a             | n/a             |
| AD Fabrika Secera Sajkaska                     | Serbia         | 28      | 19     | n/m                     | n/m                  | n/a             | n/a             | n/m                   | n/m                  | n/a             | n/a             | n/m                            | n/m                  | n/a             | n/a             |
| <b>Min</b>                                     |                |         |        | <b>4.0 x</b>            | <b>6.3 x</b>         | <b>6.1 x</b>    | <b>4.2 x</b>    | <b>6.1 x</b>          | <b>7.6 x</b>         | <b>8.0 x</b>    | <b>4.8 x</b>    | <b>2.4 x</b>                   | <b>4.5 x</b>         | <b>5.5 x</b>    | <b>2.6 x</b>    |
| <b>Max</b>                                     |                |         |        | <b>24.1 x</b>           | <b>22.4 x</b>        | <b>9.0 x</b>    | <b>8.9 x</b>    | <b>170.1 x</b>        | <b>17.3 x</b>        | <b>12.2 x</b>   | <b>11.4 x</b>   | <b>21.8 x</b>                  | <b>20.1 x</b>        | <b>16.2 x</b>   | <b>15.0 x</b>   |
| <b>Average</b>                                 |                |         |        | <b>10.3 x</b>           | <b>10.5 x</b>        | <b>8.0 x</b>    | <b>7.1 x</b>    | <b>38.0 x</b>         | <b>13.7 x</b>        | <b>10.6 x</b>   | <b>8.1 x</b>    | <b>12.4 x</b>                  | <b>14.3 x</b>        | <b>11.3 x</b>   | <b>8.8 x</b>    |
| <b>Average (excl high and low)</b>             |                |         |        | <b>8.4 x</b>            | <b>8.5 x</b>         | <b>8.9 x</b>    | <b>8.3 x</b>    | <b>13.0 x</b>         | <b>14.6 x</b>        | <b>11.5 x</b>   | <b>n/m</b>      | <b>12.6 x</b>                  | <b>16.4 x</b>        | <b>12.0 x</b>   | <b>n/m</b>      |

| <b>General Australian Agriculture</b>   |           |       |       |                |               |               |               |                |                |               |               |               |               |               |               |
|---|-----------|-------|-------|----------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| GrainCorp Limited                       | Australia | 1,764 | 3,508 | 12.0 x         | 25.4 x        | 12.3 x        | 10.6 x        | 22.2 x         | n/m            | 24.5 x        | 18.3 x        | 25.0 x        | n/m           | 23.6 x        | 15.7 x        |
| Nufarm Limited                          | Australia | 1,496 | 3,320 | 9.6 x          | 7.3 x         | 6.4 x         | 5.9 x         | 12.5 x         | 12.0 x         | 9.4 x         | 8.5 x         | n/m           | 14.2 x        | 9.2 x         | 7.8 x         |
| Costa Group Holdings Limited            | Australia | 1,266 | 1,530 | 11.0 x         | 26.2 x        | 9.6 x         | 8.4 x         | 15.1 x         | 135.8 x        | 14.3 x        | 12.2 x        | 11.0 x        | n/m           | 18.3 x        | 15.8 x        |
| Bega Cheese Limited                     | Australia | 1,009 | 1,477 | 14.0 x         | 11.9 x        | 10.0 x        | 8.9 x         | 19.2 x         | 17.8 x         | 14.1 x        | 12.3 x        | 35.1 x        | 22.8 x        | 16.9 x        | 14.3 x        |
| Australian Agricultural Company Limited | Australia | 669   | 1,034 | n/m            | n/m           | 41.1 x        | 24.9 x        | n/m            | n/m            | 78.4 x        | 35.2 x        | n/m           | n/m           | n/m           | 77.8 x        |
| Elders Limited                          | Australia | 662   | 868   | 12.0 x         | 11.2 x        | 9.9 x         | 9.1 x         | 12.8 x         | 12.0 x         | 10.6 x        | 9.6 x         | 9.2 x         | 11.2 x        | 9.6 x         | 8.7 x         |
| Select Harvests Limited                 | Australia | 674   | 767   | 88.2 x         | n/a           | n/a           | n/a           | n/m            | n/a            | n/a           | n/a           | n/m           | n/a           | n/a           | n/a           |
| Ruralco Holdings Limited                | Australia | 452   | 619   | 10.1 x         | 8.6 x         | 8.2 x         | 7.7 x         | 11.6 x         | 10.6 x         | 10.0 x        | 9.4 x         | 17.9 x        | 15.4 x        | 14.6 x        | 13.7 x        |
| Ridley Corporation Limited              | Australia | 397   | 485   | 10.1 x         | 9.2 x         | 7.9 x         | 7.0 x         | 15.2 x         | 14.1 x         | 11.9 x        | 10.2 x        | 22.8 x        | 18.2 x        | 16.0 x        | 13.4 x        |
| Duxton Broadacre Farms Limited          | Australia | 59    | 76    | 216.1 x        | n/a           | n/a           | n/a           | n/m            | n/a            | n/a           | n/a           | n/m           | n/a           | n/a           | n/a           |
| Australian Dairy Nutritionals Group     | Australia | 49    | 85    | n/m            | n/a           | n/a           | n/a           | n/m            | n/a            | n/a           | n/a           | n/m           | n/a           | n/a           | n/a           |
| <b>Min</b>                              |           |       |       | <b>9.6 x</b>   | <b>7.3 x</b>  | <b>6.4 x</b>  | <b>5.9 x</b>  | <b>11.6 x</b>  | <b>10.6 x</b>  | <b>9.4 x</b>  | <b>8.5 x</b>  | <b>9.2 x</b>  | <b>11.2 x</b> | <b>9.2 x</b>  | <b>7.8 x</b>  |
| <b>Max</b>                              |           |       |       | <b>216.1 x</b> | <b>26.2 x</b> | <b>41.1 x</b> | <b>24.9 x</b> | <b>22.2 x</b>  | <b>135.8 x</b> | <b>78.4 x</b> | <b>35.2 x</b> | <b>35.1 x</b> | <b>22.8 x</b> | <b>23.6 x</b> | <b>77.8 x</b> |
| <b>Average</b>                          |           |       |       | <b>42.6 x</b>  | <b>14.3 x</b> | <b>13.2 x</b> | <b>10.3 x</b> | <b>15.5 x</b>  | <b>33.7 x</b>  | <b>21.6 x</b> | <b>14.5 x</b> | <b>20.2 x</b> | <b>16.4 x</b> | <b>15.5 x</b> | <b>20.9 x</b> |
| <b>Average (excl high and low)</b>      |           |       |       | <b>22.5 x</b>  | <b>13.3 x</b> | <b>9.7 x</b>  | <b>8.6 x</b>  | <b>15.0 x</b>  | <b>14.0 x</b>  | <b>14.2 x</b> | <b>12.0 x</b> | <b>19.2 x</b> | <b>15.9 x</b> | <b>15.1 x</b> | <b>13.6 x</b> |
| <b>Overall Summary</b>                  |           |       |       |                |               |               |               |                |                |               |               |               |               |               |               |
| <b>Min</b>                              |           |       |       | <b>4.0 x</b>   | <b>2.1 x</b>  | <b>4.8 x</b>  | <b>4.2 x</b>  | <b>6.1 x</b>   | <b>7.6 x</b>   | <b>7.7 x</b>  | <b>4.8 x</b>  | <b>2.4 x</b>  | <b>4.5 x</b>  | <b>5.5 x</b>  | <b>2.6 x</b>  |
| <b>Max</b>                              |           |       |       | <b>216.1 x</b> | <b>26.2 x</b> | <b>41.1 x</b> | <b>24.9 x</b> | <b>170.1 x</b> | <b>135.8 x</b> | <b>78.4 x</b> | <b>35.2 x</b> | <b>41.0 x</b> | <b>39.4 x</b> | <b>23.6 x</b> | <b>77.8 x</b> |
| <b>Average</b>                          |           |       |       | <b>24.2 x</b>  | <b>12.0 x</b> | <b>11.1 x</b> | <b>8.9 x</b>  | <b>24.7 x</b>  | <b>23.2 x</b>  | <b>17.6 x</b> | <b>13.1 x</b> | <b>17.1 x</b> | <b>14.7 x</b> | <b>14.2 x</b> | <b>16.7 x</b> |
| <b>Average (excl high and low)</b>      |           |       |       | <b>18.0 x</b>  | <b>11.8 x</b> | <b>9.2 x</b>  | <b>8.0 x</b>  | <b>19.6 x</b>  | <b>18.1 x</b>  | <b>13.3 x</b> | <b>11.9 x</b> | <b>16.7 x</b> | <b>13.7 x</b> | <b>14.1 x</b> | <b>13.1 x</b> |

Source: Capital IQ

The above trading multiples:

- Are on a minority interest basis;
- Reflect marketable securities;
- Reflect the level of liquidity relevant to each company; and
- Reflect a range of growth and associated risk profiles.

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Summarised below are the margins of companies comparable to Mackay Sugar:

| Mackay Sugar  |              |                |                                    |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
|---|--------------|----------------|------------------------------------|--------------|----------|----------|---------------|--------------|----------|----------|-------------|--------------|----------|----------|-------------|--------------|----------|----------|-------------|--------------|----------|----------|
|   |              |                | Comparable Company Margin Analysis |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
|   |              |                | Gross Margin                       |              |          |          | EBITDA Margin |              |          |          | EBIT Margin |              |          |          | NPBT Margin |              |          |          | NPAT Margin |              |          |          |
| Company Name  | Country      | Mkt Cap (AUDm) | 1 Yr                               | Current      | 1 Yr     | 2 Yr     | 1 Yr          | Current      | 1 Yr     | 2 Yr     | 1 Yr        | Current      | 1 Yr     | 2 Yr     | 1 Yr        | Current      | 1 Yr     | 2 Yr     | 1 Yr        | Current      | 1 Yr     | 2 Yr     |
|   |              |                | Historical                         | (Hist / Est) | Estimate | Estimate | Historical    | (Hist / Est) | Estimate | Estimate | Historical  | (Hist / Est) | Estimate | Estimate | Historical  | (Hist / Est) | Estimate | Estimate | Historical  | (Hist / Est) | Estimate | Estimate |
| Cane  |              |                |                                    |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
| Wilmar International Limited                                      | Singapore    | 15,133         | 9.6%                               | 9.8%         | 9.6%     | 9.6%     | 4.3%          | 6.0%         | 5.7%     | 5.6%     | 2.6%        | 4.2%         | 3.7%     | 3.7%     | 3.0%        | 3.6%         | 3.3%     | 3.6%     | 2.7%        | 2.5%         | 2.7%     | 2.7%     |
| Cosan S.A.  | Brazil       | 18,503         | 39.2%                              | 25.3%        | 11.5%    | 11.7%    | 34.1%         | 16.3%        | 9.0%     | 8.8%     | 26.3%       | 10.7%        | 5.6%     | 5.8%     | 19.4%       | 23.5%        | 4.3%     | 4.3%     | 17.1%       | 16.0%        | 2.5%     | 2.7%     |
| Südzucker AG  | Germany      | 2,824          | 35.4%                              | 31.2%        | 33.3%    | 35.7%    | 10.5%         | 4.8%         | 5.8%     | 9.7%     | 6.2%        | n/m          | 1.0%     | 4.8%     | 5.8%        | n/m          | n/m      | 4.9%     | 3.1%        | n/m          | n/m      | 2.7%     |
| São Martinho S.A.   | Brazil       | 6,858          | 26.2%                              | 32.0%        | 30.3%    | 32.5%    | 41.4%         | 49.7%        | 50.3%    | 49.6%    | 16.8%       | 23.4%        | 23.2%    | 23.7%    | 15.9%       | 18.1%        | 17.0%    | 17.8%    | 10.9%       | 14.3%        | 14.4%    | 13.6%    |
| Shree Renuka Sugars Limited                                       | India        | 19,475         | 13.0%                              | n/m          | n/a      | n/a      | n/m           | 19.7%        | n/a      | n/a      | n/m         | 0.6%         | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| Bajaj Hindusthan Sugar Limited                                    | India        | 9,840          | 30.0%                              | 15.3%        | n/a      | n/a      | 4.7%          | 4.3%         | n/a      | n/a      | 1.3%        | 1.4%         | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| Nanning Sugar Industry Co.,Ltd.                                   | China        | 1,821          | 13.1%                              | n/m          | 6.0%     | 14.2%    | 1.8%          | n/m          | n/m      | n/m      | n/m         | n/m          | n/m      | n/m      | n/m         | n/m          | n/a      | n/a      | n/m         | n/m          | n/m      | n/m      |
| Kaset Thai International Sugar Corporation Public Company Limited | Thailand     | 21,230         | 19.4%                              | n/a          | n/a      | n/a      | 11.1%         | n/a          | n/a      | n/a      | 5.7%        | n/a          | n/a      | n/a      | 4.7%        | n/a          | n/a      | n/a      | 3.5%        | n/a          | n/a      | n/a      |
| Guangxi Yuegui Guangye Holdings Co., Ltd.                         | China        | 3,489          | 13.3%                              | 13.2%        | n/a      | n/a      | 12.7%         | 8.7%         | n/a      | n/a      | 4.6%        | 4.6%         | n/a      | n/a      | 2.5%        | 4.4%         | n/a      | n/a      | 4.3%        | 2.8%         | n/a      | n/a      |
| JDW Sugar Mills Limited   | Pakistan     | 18,830         | 7.4%                               | n/a          | n/a      | n/a      | 7.3%          | n/a          | n/a      | n/a      | 3.9%        | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      |
| Buriram Sugar Public Company Limited                              | Thailand     | 4,994          | 16.6%                              | 18.8%        | 19.3%    | 19.4%    | 16.8%         | 11.2%        | n/a      | n/a      | 12.3%       | 6.1%         | n/a      | n/a      | 2.5%        | 5.6%         | n/a      | n/a      | 9.1%        | 4.9%         | n/a      | n/a      |
| Triveni Engineering & Industries Limited                          | India        | 18,443         | 34.8%                              | 29.2%        | n/a      | n/a      | 8.2%          | 9.7%         | n/a      | n/a      | 6.6%        | 8.0%         | n/a      | n/a      | 9.0%        | 8.5%         | n/a      | n/a      | 3.5%        | 6.9%         | n/a      | n/a      |
| Dhampur Sugar Mills Limited                                       | India        | 14,914         | 32.3%                              | 29.7%        | n/a      | n/a      | 10.6%         | 15.2%        | n/a      | n/a      | 8.9%        | 13.3%        | n/a      | n/a      | 9.5%        | 10.8%        | n/a      | n/a      | 4.5%        | 8.5%         | n/a      | n/a      |
| Dalmia Bharat Sugar and Industries Limited                        | India        | 9,340          | 39.9%                              | 30.2%        | n/a      | n/a      | 10.4%         | 13.3%        | n/a      | n/a      | 8.1%        | 10.6%        | n/a      | n/a      | 10.9%       | 9.5%         | n/a      | n/a      | 5.5%        | 8.7%         | n/a      | n/a      |
| Uttam Sugar Mills Limited   | India        | 4,998          | 32.8%                              | 29.1%        | n/a      | n/a      | 9.4%          | 13.8%        | n/a      | n/a      | 7.5%        | 11.8%        | n/a      | n/a      | 9.6%        | 6.0%         | n/a      | n/a      | 1.4%        | 4.7%         | n/a      | n/a      |
| Victorias Milling Company, Inc.                                   | Philippines  | 6,855          | 18.0%                              | n/a          | n/a      | n/a      | 14.1%         | n/a          | n/a      | n/a      | 8.6%        | n/a          | n/a      | n/a      | 16.5%       | n/a          | n/a      | n/a      | 11.6%       | n/a          | n/a      | n/a      |
| Min   |              |                | 7.4%                               | 9.8%         | 6.0%     | 9.6%     | 1.8%          | 4.3%         | 5.7%     | 5.6%     | 1.3%        | 0.6%         | 1.0%     | 3.7%     | 2.5%        | 3.6%         | 3.3%     | 3.6%     | 1.4%        | 2.5%         | 2.5%     | 2.7%     |
| Max   |              |                | 39.9%                              | 32.0%        | 33.3%    | 35.7%    | 41.4%         | 49.7%        | 50.3%    | 49.6%    | 26.3%       | 23.4%        | 23.2%    | 23.7%    | 19.4%       | 23.5%        | 17.0%    | 17.8%    | 17.1%       | 16.0%        | 14.4%    | 13.6%    |
| Average   |              |                | 23.8%                              | 24.0%        | 18.3%    | 20.5%    | 13.2%         | 14.4%        | 17.7%    | 18.4%    | 8.5%        | 8.6%         | 8.4%     | 9.5%     | 9.1%        | 10.0%        | 8.2%     | 7.7%     | 6.4%        | 7.7%         | 6.5%     | 5.4%     |
| Average (excl high & low)   |              |                | 23.8%                              | 24.7%        | 17.7%    | 19.4%    | 11.9%         | 11.9%        | 7.4%     | 9.3%     | 7.7%        | 7.8%         | 4.7%     | 5.3%     | 8.7%        | 9.0%         | 4.3%     | 4.6%     | 5.9%        | 7.3%         | 2.7%     | 2.7%     |
| Beet  |              |                |                                    |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
| Associated British Foods plc                                      | United Kingr | 19,436         | 23.0%                              | 22.9%        | 22.6%    | 22.9%    | 11.9%         | 12.6%        | 12.9%    | 13.3%    | 8.3%        | 8.9%         | 9.4%     | 9.7%     | 8.2%        | 8.7%         | 9.2%     | 9.5%     | 6.5%        | 6.8%         | 7.2%     | 7.4%     |
| Rogers Sugar Inc.   | Canada       | 614            | 16.3%                              | 16.2%        | 17.6%    | n/a      | 12.9%         | 11.8%        | 12.7%    | n/a      | 10.7%       | 9.2%         | 10.0%    | n/a      | 8.3%        | n/a          | n/a      | n/a      | 6.1%        | 5.2%         | 6.1%     | n/a      |
| ASTARTA Holding N.V.  | Netherlands  | 4,196          | 43.5%                              | 25.6%        | n/a      | n/a      | 23.5%         | 13.9%        | 16.2%    | 23.1%    | 15.4%       | 6.3%         | 12.3%    | 20.4%    | 17.6%       | n/m          | n/m      | n/m      | 12.8%       | n/m          | 5.8%     | 11.9%    |
| Nippon Beet Sugar Manufacturing Co., Ltd.                         | Japan        | 26,610         | 27.8%                              | 27.0%        | n/a      | n/a      | 6.8%          | 7.1%         | n/a      | n/a      | 2.7%        | 2.7%         | n/a      | n/a      | 3.7%        | 3.4%         | n/a      | n/a      | 2.1%        | 2.3%         | n/a      | n/a      |
| Rana Sugars Limited   | India        | 481            | 16.2%                              | 14.4%        | n/a      | n/a      | 3.7%          | 3.6%         | n/a      | n/a      | 0.5%        | n/m          | n/a      | n/a      | n/a         | n/m          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| DCM Shriram Industries Limited                                    | India        | 3,390          | 37.8%                              | 38.3%        | n/a      | n/a      | 5.9%          | 6.8%         | n/a      | n/a      | 4.8%        | 5.7%         | n/a      | n/a      | 9.0%        | 5.5%         | n/a      | n/a      | 3.4%        | 4.4%         | n/a      | n/a      |
| AD Fabrika Secera Sajkaska  | Serbia       | 2,032          | 35.8%                              | 3.1%         | n/a      | n/a      | 7.1%          | n/m          | n/a      | n/a      | 5.9%        | n/m          | n/a      | n/a      | 31.9%       | n/m          | n/a      | n/a      | 4.0%        | n/m          | n/a      | n/a      |
| Min   |              |                | 16.2%                              | 3.1%         | 17.6%    | 22.9%    | 3.7%          | 3.6%         | 12.7%    | 13.3%    | 0.5%        | 2.7%         | 9.4%     | 9.7%     | 3.7%        | 3.4%         | 9.2%     | 9.5%     | 2.1%        | 2.3%         | 5.8%     | 7.4%     |
| Max   |              |                | 43.5%                              | 38.3%        | 22.6%    | 22.9%    | 23.5%         | 13.9%        | 16.2%    | 23.1%    | 15.4%       | 9.2%         | 12.3%    | 20.4%    | 31.9%       | 8.7%         | 9.2%     | 9.5%     | 12.8%       | 6.8%         | 7.2%     | 11.9%    |
| Average   |              |                | 28.6%                              | 21.1%        | 20.1%    | 22.9%    | 10.3%         | 9.3%         | 13.9%    | 18.2%    | 6.9%        | 6.6%         | 10.6%    | 15.0%    | 13.1%       | 5.9%         | 9.2%     | 9.5%     | 5.8%        | 4.7%         | 6.4%     | 9.7%     |
| Average (excl high & low)   |              |                | 28.1%                              | 21.2%        | n/a      | 22.9%    | 8.9%          | 9.6%         | 12.9%    | n/a      | 6.5%        | 7.0%         | 10.0%    | n/a      | 10.8%       | 5.5%         | 9.2%     | 9.5%     | 5.0%        | 4.8%         | 6.1%     | n/a      |
| General Australian Agriculture                                    |              |                |                                    |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
| GrainCorp Limited   | Australia    | 1,764          | 17.6%                              | 17.1%        | 18.3%    | 16.0%    | 6.9%          | 3.1%         | 6.2%     | 6.9%     | 3.7%        | n/m          | 3.1%     | 4.0%     | 1.7%        | n/m          | 2.2%     | 3.2%     | 1.7%        | n/m          | 1.6%     | 2.3%     |
| Nufarm Limited  | Australia    | 1,496          | 29.1%                              | 12.7%        | 14.4%    | 14.4%    | 10.5%         | 12.6%        | 13.8%    | 14.2%    | 8.0%        | 7.7%         | 9.3%     | 9.9%     | 1.2%        | 4.3%         | 6.3%     | 6.9%     | n/m         | n/m          | 4.3%     | 4.9%     |
| Costa Group Holdings Limited                                      | Australia    | 1,266          | 60.7%                              | 66.0%        | 67.1%    | 67.4%    | 13.9%         | 6.1%         | 14.0%    | 15.0%    | 10.1%       | 1.2%         | 9.4%     | 10.2%    | 3.6%        | 1.2%         | 8.2%     | 9.0%     | 11.5%       | n/m          | 6.1%     | 6.5%     |
| Bega Cheese Limited   | Australia    | 1,009          | 19.2%                              | 18.8%        | 18.7%    | 18.9%    | 7.3%          | 7.4%         | 8.2%     | 8.6%     | 5.3%        | 4.9%         | 5.8%     | 6.2%     | 3.5%        | 3.7%         | 4.6%     | 5.1%     | 2.0%        | n/m          | 3.3%     | 3.7%     |
| Australian Agricultural Company Limited                           | Australia    | 669            | n/m                                | n/m          | n/a      | n/a      | n/m           | n/m          | 12.0%    | 18.7%    | n/m         | n/m          | 6.3%     | 13.2%    | 25.4%       | n/m          | n/a      | n/a      | n/m         | n/m          | n/m      | 3.9%     |
| Elders Limited  | Australia    | 662            | 21.6%                              | n/a          | n/a      | n/a      | 4.5%          | 4.7%         | 5.0%     | 5.2%     | 4.2%        | 4.4%         | 4.7%     | 4.9%     | 3.8%        | 3.8%         | 4.2%     | 4.4%     | 4.4%        | n/m          | 4.0%     | 4.2%     |
| Select Harvests Limited   | Australia    | 674            | 5.6%                               | n/a          | n/a      | n/a      | 3.2%          | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| Ruralco Holdings Limited  | Australia    | 452            | 17.9%                              | n/a          | n/a      | n/a      | 3.2%          | 4.4%         | 4.4%     | 4.5%     | 2.8%        | 3.6%         | 3.6%     | 3.7%     | 2.4%        | 3.1%         | 3.2%     | 3.2%     | 1.3%        | n/m          | 1.8%     | 1.8%     |
| Ridley Corporation Limited  | Australia    | 397            | 7.5%                               | n/a          | n/a      | n/a      | 5.2%          | 5.2%         | 6.2%     | 6.8%     | 3.5%        | 3.4%         | 4.1%     | 4.6%     | 2.4%        | 2.9%         | 3.4%     | 4.0%     | 1.9%        | n/m          | 2.5%     | 2.9%     |
| Duxton Broadacre Farms Limited                                    | Australia    | 59             | 24.8%                              | n/a          | n/a      | n/a      | 2.4%          | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| Australian Dairy Nutritionals Group                               | Australia    | 49             | 22.4%                              | n/a          | n/a      | n/a      | n/m           | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/a          | n/a      | n/a      | n/m         | n/m          | n/a      | n/a      |
| Min   |              |                | 5.6%                               | 12.7%        | 14.4%    | 14.4%    | 2.4%          | 3.1%         | 4.4%     | 4.5%     | 2.8%        | 1.2%         | 3.1%     | 3.7%     | 1.2%        | 1.2%         | 2.2%     | 3.2%     | 1.3%        | n/a          | 1.6%     | 1.8%     |
| Max   |              |                | 60.7%                              | 66.0%        | 67.1%    | 67.4%    | 13.9%         | 12.6%        | 14.0%    | 18.7%    | 10.1%       | 7.7%         | 9.4%     | 13.2%    | 25.4%       | 4.3%         | 8.2%     | 9.0%     | 11.5%       | n/a          | 6.1%     | 6.5%     |
| Average   |              |                | 22.6%                              | 28.6%        | 29.6%    | 29.2%    | 6.4%          | 6.2%         | 8.7%     | 10.0%    | 5.4%        | 4.2%         | 5.8%     | 7.1%     | 5.5%        | 3.2%         | 4.6%     | 5.1%     | 3.8%        | n/a          | 3.4%     | 3.8%     |
| Average (excl high & low)   |              |                | 20.0%                              | 17.9%        | 18.5%    | 17.5%    | 5.8%          | 5.5%         | 8.6%     | 9.4%     | 5.0%        | 4.1%         | 5.6%     | 6.6%     | 2.9%        | 3.4%         | 4.3%     | 4.7%     | 2.5%        | n/a          | 3.2%     | 3.6%     |
| Overall Summary   |              |                |                                    |              |          |          |               |              |          |          |             |              |          |          |             |              |          |          |             |              |          |          |
| Min   |              |                | 5.6%                               | 3.1%         | 6.0%     | 9.6%     | 1.8%          | 3.1%         | 4.4%     | 4.5%     | 0.5%        | 0.6%         | 1.0%     | 3.7%     | 1.2%        | 1.2%         | 2.2%     | 3.2%     | 1.3%        | 2.3%         | 1.6%     | 1.8%     |
| Max   |              |                | 60.7%                              | 66.0%        | 67.1%    | 67.4%    | 41.4%         | 49.7%        | 50.3%    | 49.6%    | 26.3%       | 23.4%        | 23.2%    | 23.7%    | 31.9%       | 23.5%        | 17.0%    | 17.8%    | 17.1%       | 16.0%        | 14.4%    | 13.6%    |
| Average   |              |                | 24.5%                              | 23.9%        | 22.4%    | 23.9%    | 10.5%         | 10.9%        | 12.2%    | 13.6%    | 7.3%        | 6.9%         | 7.4%     | 8.9%     | 8.9%        | 7.0%         | 6.0%     | 6.3%     | 5.6%        | 6.8%         | 4.8%     | 5.1%     |
| Average (excl high & low)   |              |                | 23.9%                              | 22.8%        | 19.6%    | 20.6%    | 9.8%          | 9.5%         | 9.8%     | 11.3%    | 6.9%        | 6.4%         | 6.7%     | 8.1%     | 8.3%        | 6.4%         | 5.2%     | 5.5%     | 5.3%        | 6.3%         | 4.2%     | 4.7%     |

Source: Capital IQ



## Appendix 5 – Comparable Transaction Multiples

Summarised below are Transaction Multiples associated with companies similar to Mackay Sugar:

### Australian Transaction Multiples and Crushing Metrics

| Mackay Sugar<br>Comparable Transaction Multiples |                  |             |   |                    |  |                              |
|--|------------------|-------------|---|--------------------|--|------------------------------|
| Closed Date                                      | Target           | Acquirer    | Consideration<br>for milling<br>assets (AUDm) | EBITDA<br>Multiple | Implied Value/<br>Tonnes Cane<br>Crushed | Average Cane<br>crushed Mtpa |
| <b>Australia</b>                                 |                  |             |   |                    |  |                              |
| Jul-2010   | Sucrogen         | Wilmar      | 1,059.0                                       | 11.0x              | \$76                                     | 13.9                         |
| Dec-2011   | MSF              | Mitr Phol * | 270.0   | 10.0x              | \$68                                     | 4.0                          |
| May-2011   | Tully Sugar      | COFCO       | 103.0   | 10.3x              | \$57                                     | 1.8                          |
| Nov-2011   | Proserpine Sugar | Wilmar *    | 92.0  | 8.8x               | \$56                                     | 1.6                          |
| Feb-2011   | Northern Milling | MSF *       | 70.0  | 5.7x               | \$28                                     | 2.5                          |
| Oct-2007   | Mulgrave         | MSF         | 40.0  | 9.6x               | \$35                                     | 1.1                          |
| <b>Average</b>                                   |                  |             |   | <b>9.2x</b>        | <b>\$53</b>                              | <b>4.2</b>                   |
| <b>Average excl. high &amp; low</b>              |                  |             |   | <b>9.7x</b>        | <b>\$54</b>                              | <b>2.5</b>                   |
| <b>Min</b>                                       |                  |             |   | <b>5.7x</b>        | <b>\$28</b>                              | <b>1.1</b>                   |
| <b>Max</b>                                       |                  |             |   | <b>11.0x</b>       | <b>\$76</b>                              | <b>13.9</b>                  |

Source: IER prepared by Lonergan Edwards for the Acquisition of MSF by Mitr Phol. & IER prepared by BDO for the acquisition of Proserpine by Wilmar (parent of Sucrogen)

Note: \* - Metrics measured at midpoint values

The EV's reported for transactions relate to Core Milling assets

We note the above multiples:

- Are on a controlling basis, where in excess of 50% of the equity has been acquired;
- Include any strategic value paid in the transactions;
- Reflect completed transactions (i.e. are on a marketable basis); and
- Relate to target companies for which there is limited publicly available information (for example, in relation to growth and associated risk profiles);
- Reflect businesses of a range of sizes and diversity.

## International Transaction Multiples

| Mackay Sugar<br>International Comparable Transaction Multiples |  |   |              |              |                          |                   |                   |              |              |
|--|--|---|--------------|--------------|--------------------------|-------------------|-------------------|--------------|--------------|
| Closed Date  | Target   | Acquirer                                      | Country      | Acquired (%) | Transaction value (AUDm) | Implied EV (AUDm) | Implied multiples |              |              |
|  |  |   |              |              |                          |                   | Revenue           | EBITDA       | EBIT         |
| <b>International</b>   |  |   |              |              |                          |                   |                   |              |              |
| 30-Oct-18  | Dalmia Bharat Limited                                    | OCL India Limited (nka:Odisha Cement Limited) | India        | 100%         | 4,953.6                  | 4,333.7           | 2.1x              | 12.0x        | 16.9x        |
| 21-Nov-17  | Bien Hoa Sugar Joint Stock Company                       | Thanh Thanh Cong Tay Ninh Joint Stock Company | Vietnam      | 100%         | 686.8                    | 664.5             | 2.3x              | 23.6x        | 35.0x        |
| 05-Aug-17  | L.B. Maple Treat Corporation                             | Lantic Inc.                                   | Canada       | 100%         | 163.7                    | 163.7             | 1.5x              | 23.0x        | 43.6x        |
| 03-Feb-17  | Tereos Açúcar e Energia Brasil S.A.                      | Tereos Participations S.A.S                   | Brazil       | 46%          | 282.2                    | 1,837.5           | 1.4x              | 8.1x         | 30.0x        |
| 30-Jun-16  | Illovo Sugar Limited                                     | Associated British Foods plc                  | South Africa | 49%          | 495.1                    | 1,519.4           | 1.3x              | 9.6x         | 11.9x        |
| 25-Sep-15  | Gia Lai Cane Sugar ThermoElectricity Joint Stock Company | Thanh Thanh Cong Tay Ninh Joint Stock Company | Vietnam      | 100%         | 88.4                     | 84.5              | 1.3x              | 8.2x         | 12.8x        |
| 02-Sep-15  | Empresas Iansa S.A.                                      | ED&F Man Holdings Limited                     | Chile        | 49%          | 112.2                    | 494.2             | 0.6x              | 13.7x        | 22.4x        |
| 30-Jun-14  | Vishnu Sugar Mills Ltd.                                  | n/m   | India        | 60%          | 15.3                     | 17.0              | 0.6x              | 12.0x        | 16.9x        |
| <b>Average</b>   |  |   |              |              |                          |                   | <b>1.4x</b>       | <b>13.8x</b> | <b>23.7x</b> |
| <b>Average excl. high &amp; low</b>                            |  |   |              |              |                          |                   | <b>1.4x</b>       | <b>13.1x</b> | <b>22.4x</b> |
| <b>Min</b>   |  |   |              |              |                          |                   | <b>0.6x</b>       | <b>8.1x</b>  | <b>11.9x</b> |
| <b>Max</b>   |  |   |              |              |                          |                   | <b>2.3x</b>       | <b>23.6x</b> | <b>43.6x</b> |

Source: Capital IQ

We note the above multiples:

- Are on a controlling basis, where in excess of 50% of the equity has been acquired;
- Include any strategic value paid in the transactions;
- Reflect completed transactions (i.e. are on a marketable basis); and
- Relate to target companies for which there is limited publicly available information (for example, in relation to growth and associated risk profiles);
- Reflect businesses of a range of sizes and diversity.

## Appendix 6 – Assessment of Discount Rate

We calculated the post-tax WACC for Mackay Sugar as set out below.

### Weighted Average Cost of Capital

Summarised below is the WACC formula:

$$WACC = [K_e \times W_e] + [K_d \times (1-t) \times W_d]$$

Where:

|       |   |  |
|-------|---|--|
| $K_e$ | = | Cost of equity                                 |
| $W_e$ | = | Weighting of equity over total debt and equity |
| $K_d$ | = | Cost of debt                                   |
| $t$   | = | Effective tax rate                             |
| $W_d$ | = | Weighting of debt over total debt and equity   |

We adopted the following variables:

- **Ke:** 11.5% to 12.5% as calculated in the table further below;
- **We:** 70% based on an analysis of the capital structures of local and international comparable companies, and considering Mackay Sugar's circumstances;
- **Kd:** 4.0% based on RBA data on credit outstanding for business of similar size to Mackay Sugar as well as analysis of Mackay Sugar's weighted average cost of debt, based on current and future borrowings;
- **t:** 30% being the relevant Australian corporate tax rate; and

- **Wd:** 30% on the same basis that  $W_e$  was determined.

### Cost of Equity

We calculated the cost of equity using the Capital Asset Pricing Model ("CAPM") as summarised in the formula below:

$$K_e = R_f + \beta * (R_m - R_f) + SRP$$

Where:

|         |   |   |
|---------|---|---|
| $R_f$   | = | Risk free rate of return, typically based on long-term government bond rates                                |
| $\beta$ | = | Beta of the asset being valued, being the sensitivity of its returns to the returns generated by the market |
| $R_m$   | = | The expected return on the market   |
| SRP     | = | Small size / specific risk premium, reflecting factors not captured by the beta                             |

In applying the CAPM, we adopted the following variables:

- **Rf:** 1.5%, being the 10- year Australian Government Bond rate as at 31 May 2019;
- **Beta:** refer beta information detailed further below;

- **[R<sub>m</sub> – R<sub>f</sub>] or Market Risk Premium (“MRP”):** 7.0%, being within the range of the generally accepted long term MRP for Australia and considering the current low interest rate environment <sup>18</sup>;
- **Specific risk premium (“SRP”):** 5.5% to 6.5%, predominantly reflecting risks associated with Mackay Sugar’s planned transition and achievement of its forecasts. We also considered the scale of Mackay Sugar’s operations.

## Beta Assessment

Beta is a measure of the systematic risk of a company’s investments which cannot be diversified away, measured against the market portfolio.

A company’s systematic risk is impacted by the level of gearing employed by the company. Analysis and adjustments can be made to estimate the impact of gearing on a company’s observed (equity) beta. This process is referred to as ungearing the beta, or calculating the asset beta.

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<sup>18</sup> ‘A range of empirical studies indicate the MRP for Australia is generally in the range of 5.0 to 8.0%. Additionally, in recent years it has been common market practice in Australia in Expert’s reports and regulatory decisions to adopt a MRP of 6.0% to 7.0%. Taking this in to account and the current low interest rate environment, we adopted a MRP of 7.0%. Source: Recent studies undertaken by the Centre for Research in Finance at the Australian Graduate

## Comparable Company Betas

Summarised below are size metrics and betas of International Sugar, Beet and General Australian Agricultural listed companies:

| Mackay Sugar<br>Comparable Company Betas              |                      |                   |                           |                |                       |               |
|---|----------------------|-------------------|---------------------------|----------------|-----------------------|---------------|
| Company Name  | Market cap<br>(AUDm) | Revenue<br>(AUDm) | Equity<br>Beta<br>Adopted | Avg debt to EV | Avg debt<br>to Equity | Asset<br>Beta |
| <b>Sugar Cane</b>                                     |                      |                   |                           |                |                       |               |
| Wilmar International Limited                          | 21,831               | 61,703            | 0.7                       | 63.7%          | 175.3%                | 0.3           |
| Cosan S.A.  | 6,822                | 4,067             | 1.2                       | 46.0%          | 85.3%                 | 0.8           |
| Südzucker AG  | 4,541                | 10,827            | 0.9                       | 32.6%          | 48.4%                 | 0.7           |
| São Martinho S.A.                                     | 2,529                | 1,228             | 0.5                       | 41.1%          | 69.9%                 | 0.3           |
| Shree Renuka Sugars Limited                           | 404                  | 917               | 1.1                       | 72.6%          | 265.2%                | 0.4           |
| Bajaj Hindusthan Sugar Limited                        | 204                  | 1,384             | 1.2                       | 72.4%          | 262.7%                | 0.4           |
| Nanning Sugar Industry Co.,Ltd.                       | 381                  | 788               | 0.8                       | 57.6%          | 135.6%                | 0.4           |
| Kaset Thai International Sugar Corporation Public Com | 970                  | 1,068             | n/m                       | 30.6%          | 44.1%                 | n/m           |
| Guangxi Yuegui Guangye Holdings Co., Ltd.             | 729                  | 672               | 0.9                       | 7.3%           | 7.9%                  | 0.9           |
| JDW Sugar Mills Limited                               | 184                  | 474               | 0.6                       | 63.2%          | 171.5%                | 0.3           |
| Buriram Sugar Public Company Limited                  | 228                  | 235               | 0.4                       | 41.8%          | 71.8%                 | 0.3           |
| Triveni Engineering & Industries Limited              | 382                  | 641               | 0.7                       | 55.9%          | 126.8%                | 0.4           |
| Dhampur Sugar Mills Limited                           | 309                  | 601               | 1.1                       | 69.9%          | 232.3%                | 0.4           |
| Dalmia Bharat Sugar and Industries Limited            | 194                  | 410               | 1.2                       | 61.5%          | 159.6%                | 0.6           |
| Uttam Sugar Mills Limited                             | 104                  | 250               | 1.1                       | 74.6%          | 294.4%                | 0.4           |
| Victorias Milling Company, Inc.                       | 190                  | 164               | n/m                       | 9.6%           | 10.6%                 | n/m           |
| <b>Average</b>  |                      |                   | <b>0.9</b>                | <b>50.0%</b>   | <b>135.1%</b>         | <b>0.5</b>    |
| <b>Median</b>   |                      |                   | <b>0.9</b>                | <b>56.7%</b>   | <b>131.2%</b>         | <b>0.4</b>    |
| <b>Max</b>  |                      |                   | <b>1.2</b>                | <b>74.6%</b>   | <b>294.4%</b>         | <b>0.9</b>    |
| <b>Min</b>  |                      |                   | <b>0.4</b>                | <b>7.3%</b>    | <b>7.9%</b>           | <b>0.3</b>    |

Source: Capital IQ

School of Management, Morningstar Inc, ABN AMRO/London Business School and Aswath Damodaran.

| Mackay Sugar<br>Comparable Company Betas  |                      |                   |                           |                |                       |               |
|---|----------------------|-------------------|---------------------------|----------------|-----------------------|---------------|
| Company Name                              | Market cap<br>(AUDm) | Revenue<br>(AUDm) | Equity<br>Beta<br>Adopted | Avg debt to EV | Avg debt<br>to Equity | Asset<br>Beta |
| <b>Sugar Beet</b>                         |                      |                   |                           |                |                       |               |
| Associated British Foods plc              | 35,380               | 29,270            | 0.7                       | 4.3%           | 4.5%                  | 0.7           |
| Rogers Sugar Inc.                         | 656                  | 850               | 0.6                       | 30.9%          | 44.7%                 | 0.4           |
| ASTARTA Holding N.V.                      | 225                  | 643               | 0.9                       | 49.9%          | 99.6%                 | 0.5           |
| Nippon Beet Sugar Manufacturing Co., Ltd. | 353                  | 737               | 0.5                       | 29.1%          | 41.0%                 | 0.4           |
| Rana Sugars Limited                       | 10                   | 222               | 0.9                       | n/m            | n/m                   | 0.9           |
| DCM Shriram Industries Limited            | 70                   | 343               | 0.7                       | 47.1%          | 89.2%                 | 0.5           |
| AD Fabrika Secera Sajkaska                | 28                   | 45                | n/m                       | 0.6%           | 0.6%                  | n/m           |
| <b>Average</b>                            |                      |                   | <b>0.7</b>                | <b>27.0%</b>   | <b>46.6%</b>          | <b>0.6</b>    |
| <b>Median</b>                             |                      |                   | <b>0.7</b>                | <b>30.0%</b>   | <b>42.9%</b>          | <b>0.5</b>    |
| <b>Max</b>                                |                      |                   | <b>0.9</b>                | <b>49.9%</b>   | <b>99.6%</b>          | <b>0.9</b>    |
| <b>Min</b>                                |                      |                   | <b>0.5</b>                | <b>0.6%</b>    | <b>0.6%</b>           | <b>0.4</b>    |
| <b>General Australian Agriculture</b>     |                      |                   |                           |                |                       |               |
| GrainCorp Limited                         | 1,764                | 4,759             | 0.6                       | 49.3%          | 97.1%                 | 0.3           |
| Nufarm Limited                            | 1,496                | 3,424             | 0.7                       | 40.0%          | 66.7%                 | 0.5           |
| Costa Group Holdings Limited              | 1,266                | 955               | 0.6                       | 31.1%          | 45.1%                 | 0.4           |
| Bega Cheese Limited                       | 1,009                | 1,474             | 0.8                       | 16.3%          | 19.5%                 | 0.7           |
| Australian Agricultural Company Limited   | 669                  | 364               | 0.6                       | 31.6%          | 46.2%                 | 0.5           |
| Elders Limited                            | 662                  | 1,601             | 0.6                       | 25.9%          | 35.0%                 | 0.5           |
| Select Harvests Limited                   | 674                  | 270               | 0.9                       | 13.1%          | 15.0%                 | 0.8           |
| Ruralco Holdings Limited                  | 452                  | 1,931             | 0.6                       | 29.6%          | 42.1%                 | 0.4           |
| Ridley Corporation Limited                | 397                  | 992               | 0.6                       | 19.8%          | 24.7%                 | 0.5           |
| Duxton Broadacre Farms Limited            | 59                   | 14                | 0.5                       | 8.9%           | 9.7%                  | 0.5           |
| Australian Dairy Nutritionals Group       | 49                   | 19                | 0.8                       | 26.1%          | 35.3%                 | 0.6           |
| <b>Average</b>                            |                      |                   | <b>0.7</b>                | <b>26.5%</b>   | <b>39.7%</b>          | <b>0.5</b>    |
| <b>Median</b>                             |                      |                   | <b>0.6</b>                | <b>26.1%</b>   | <b>35.3%</b>          | <b>0.5</b>    |
| <b>Max</b>                                |                      |                   | <b>0.9</b>                | <b>49.3%</b>   | <b>97.1%</b>          | <b>0.8</b>    |
| <b>Min</b>                                |                      |                   | <b>0.5</b>                | <b>8.9%</b>    | <b>9.7%</b>           | <b>0.3</b>    |
| <b>Overall Summary</b>                    |                      |                   |                           |                |                       |               |
| <b>Average</b>                            |                      |                   | <b>0.8</b>                | <b>38.0%</b>   | <b>87.2%</b>          | <b>0.5</b>    |
| <b>Median</b>                             |                      |                   | <b>0.7</b>                | <b>32.6%</b>   | <b>48.4%</b>          | <b>0.5</b>    |
| <b>Max</b>                                |                      |                   | <b>1.2</b>                | <b>74.6%</b>   | <b>294.4%</b>         | <b>0.9</b>    |
| <b>Min</b>                                |                      |                   | <b>0.4</b>                | <b>0.6%</b>    | <b>0.6%</b>           | <b>0.3</b>    |

Source: Capital IQ

Business descriptions in relation of the companies above are provided in **Appendix 8**.

## Equity Beta

Based on the average of the observed betas, we adopted an asset (or ungeared) beta of 0.5 for Mackay Sugar.

Based on an analysis of the capital structures of the comparable companies, as well as an assessment of the ability of Mackay Sugar to borrow in the medium term, we adopted a debt to EV ratio for Mackay Sugar of 30% which equates to a debt to equity ratio of 43%.

Accordingly, we calculated an equity (or re-gear) beta for Mackay Sugar of 0.7 excluding specific risk premiums.

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## Calculated Weighted Average Cost of Capital

Summarised to the right are our post-tax WACC calculations:

| Mackay Sugar<br>Post-Tax WACC           |              |              |
|---|--------------|--------------|
|   | Low          | High         |
| <b>Post-tax cost of equity</b>          |              |              |
| Risk free rate                          | 1.5%         | 1.5%         |
| Implied equity beta                     | 0.7          | 0.7          |
| Market risk premium                     | 7.0%         | 7.0%         |
| Specific risk premium                   | 5.5%         | 6.5%         |
| <b>Post-tax cost of equity</b>          | <b>11.5%</b> | <b>12.5%</b> |
| <b>Post-tax cost of debt</b>            |              |              |
| Pre-tax cost of debt                    | 4.0%         | 4.0%         |
| Effective tax rate                      | 30.0%        | 30.0%        |
| Post-tax cost of debt                   | 2.8%         | 2.8%         |
| <b>Capital structure</b>                |              |              |
| <u>Comparative weighting of:</u>        |              |              |
| Equity capital                          | 70.0%        | 70.0%        |
| Debt capital                            | 30.0%        | 30.0%        |
| Total                                   | 100.0%       | 100.0%       |
| <b>Weighted average cost of capital</b> |              |              |
| <b>Post-tax WACC</b>                    | <b>8.89%</b> | <b>9.59%</b> |

Source: Crowe Horwath Calculations

Note: This table includes rounding.

Based on the above, we adopted a post-tax WACC for Mackay Sugar of **8.75% to 9.75%**

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## Appendix 7 – Discounts for Lack of Control and Marketability

### Discount for Lack of Control

Equity interests of 100% are inherently more valuable than equity interests of less than 100%, as a 100% shareholder can exert a greater level of control over day-to-day and strategic decision making, including:

- Appointing and removing Directors from the Board;
- Influencing the strategic decision making of a business by voting to enforce resolutions at a Board or shareholder level;
- Preventing other shareholders or shareholding groups from exerting influence by blocking resolutions at a Board or shareholder level; or
- Declaring dividends to access cash flows from their investment when they desire (or preventing other shareholders / shareholder groups from doing likewise).

In other words, the value of an equity interest increases the greater the level of influence attaching to the interest. In the absence of special rights granted through a shareholders agreement, or in relation to a specific class of share, the level of a shareholders influence is generally related to the quantum of their percentage shareholding. For example, a portfolio interest (say an interest of less than 10% in a company) commands less influence than a 20% shareholder, whereas a 25.1% shareholder can block special resolutions and therefore has an even greater influence (and value). By comparison, a 75.1% shareholder can control decision making and pass special resolutions.

Typical control premiums in Australia range of 20% to 40%<sup>19</sup>, which equates to comparable minority discounts of approximately 17% to 29%.

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<sup>19</sup> FINSIA

### Discount for Lack of Marketability

Marketability refers to the ease and timeframe under which an asset can be sold. Assets with a greater relative degree of marketability (those that can be sold more easily, or more quickly), are inherently more valuable as it is easier for the owners to realise the value of those assets. In recognition of this, it is common practice to apply a value discount where a lack of marketability exists.

Empirical research and academic studies indicate that discounts for lack of marketability in Australia typically range between 10% and 30%. Notwithstanding, the relevant discount will vary dependent upon the specific circumstances.

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## Appendix 8 – Comparable Trading Company Descriptions

Summarised below are the descriptions of the comparable companies:

| Mackay Sugar<br>Comparable Company Descriptions |                     |   |
|---|---------------------|---|
| Company name                                    | Geographic location | Business description  |
| Wilmar International Limited                    | Singapore           | <p>Wilmar International Limited operates as an agribusiness company in the People's Republic of China and internationally. The company operates through four segments: Tropical Oils, Oilseeds and Grains, Sugar, and Others. It engages in the oil palm cultivation, harvesting, and milling activities that primarily provide crude palm oil and palm kernel; and milling of fresh palm fruit bunches. As of December 31, 2017, the company owned an oil palm plantation covering an area of 239,935 hectares in Indonesia, East Malaysia, and Africa. It is also involved in processing, merchandising, branding, and distributing palm oil and laurics related products, including oleochemicals and biodiesel; and oilseed products, such as soybean, rapeseed, groundnut, sunflower seed, sesame seed, cottonseed, canola, corn, and rice bran oil and meal products, as well as rice, flour, wheat bran meal, and bran and pollard to distributors, wholesalers, feed millers, industrial users, and retailers. In addition, the company produces and markets edible oil, rice, flour, grains, and noodles to traditional retail outlets, supermarkets, convenience stores, and hypermarkets under its own brands. Further, it engages in milling, refining, merchandising, branding, and distributing white sugar, brown sugar, caster sugar, and syrups in bulk and packaged forms; the generation and sale of electricity; the manufacture and sale of bioethanol, as well as nitrogen, phosphorus, and potassium compound fertilizers; and the distribution of a range of chemicals and ingredients, as well as in ship-owning, chartering, brokering, and management activities. The company was founded in 1991 and is headquartered in Singapore.</p> |
| Cosan S.A.                                      | Brazil              | <p>Cosan S.A., through its subsidiaries, primarily engages in the fuel distribution business in Brazil, Europe, and Asia. It operates through Raízen Energia, Raízen Combustíveis, COMGÁS, and Moove segments. The Raízen Energia segment produces and markets various products derived from sugar cane, including raw sugar, and anhydrous and hydrated ethanol. This segment also engages in activities related to energy cogeneration from sugarcane bagasse with an installed capacity of 940 MW; and holds interests in companies involved in research and development on new technology. The Raízen Combustíveis segment distributes and markets fuels through a franchised network of service stations under the Shell brand. This segment operates through 6,000 fuel service stations, 67 distribution terminals, and 64 airports terminals for supplying aviation fuel. The COMGÁS segment distributes piped natural gas to customers in the industrial, residential, commercial, automotive, thermo generation, and cogeneration sectors. The Moove segment produces and distributes lubricants under the Mobil and Comma brands. The company was founded in 1936 and is headquartered in São Paulo, Brazil. Cosan S.A. is a subsidiary of Cosan Limited.</p>  |



| Mackay Sugar<br>Comparable Company Descriptions |                     |  |
|---|---------------------|--|
| Company name                                    | Geographic location | Business description   |
| Südzucker AG                                    | Germany             | Südzucker AG supplies sugar products in Europe and internationally. It operates through four segments: Sugar, Special Products, CropEnergies, and Fruit. The Sugar segment produces and sells sugar, sugary specialty products, animal feed and, fertilizers to food industry, retailers, and agriculture market. This segment is also involved in agricultural/beet cultivation activities; the provision of soil testing, fertilization advisory, plant nutrients comparison, virus and bacteria analysis, animal feed testing, and organic fertilizer testing services; and the marketing of by-products of sugar, as well as bioethanol production. It is also involved in marketing coffee, molasses, grains, pulses, and edible oils, as well as the provision of shipping and financial services. The Special Products segment produces functional food ingredients, including inulin, oligofructose, Isomalt, Palatinose, rice derivatives, and wheat gluten; and ingredients for animal feed, non-food, and pharmaceutical products. This segment also offers frozen and chilled pizzas, and frozen pasta dishes and snacks; portion packed foods and non-food products to hotels, caterers, restaurants, and canteens; and starch for food and non-food sectors. The CropEnergies segment produces bioethanol, rectified spirits, protein-based food and animal feed, and liquid CO2 to oil companies and traders, food and animal feed producers, beverage and cosmetics producers, and pharmaceutical companies. The Fruit segment produces fruit preparations for the dairy, ice cream, and baked goods industries; and fruit juice concentrates, direct juices and purees, fruit wines, natural aromas, and beverage bases. The company was founded in 1837 and is headquartered in Mannheim, Germany. Südzucker AG is a subsidiary of Süddeutsche Zuckerrübenverwertungs-Genossenschaft eG. |
| São Martinho S.A.                               | Brazil              | São Martinho S.A., together with its subsidiaries, plants sugarcane; and produces and sells sugar, ethanol, and other sugarcane byproducts in Brazil. It operates through Sugar, Ethanol, Electricity, Real Estate Transactions, and Other Products segments. The company offers various types of raw sugar; hydrous ethanol, which is used as fuel by ethanol-driven vehicles; anhydrous ethanol that is used as a gasoline additive in gasoline-driven vehicles; and industrial ethanol, which is primarily used in the production of paints, cosmetics, and alcoholic beverages. It also generates electricity through sugarcane bagasse; and produces ribonucleic acid sodium salt that is used in the pharmaceutical and food industries as a raw material and flavor enhancer. In addition, the company provides byproducts, including yeast used in animal feed; fuel oil, which is used as a solvent, as well as in the manufacture of explosives and pure amyl alcohol; and sugarcane bagasse that is used to generate steam and electricity. Further, it engages in the agricultural production activities; import and export of goods, products, and raw materials; exploitation of land through lease and agricultural partnership, as well as development, rental, and sale of real estate properties; and storage of products. The company was founded in 1914 and is headquartered in Pradópolis, Brazil. São Martinho S.A. is a subsidiary of LJM Participações S.A.   |

| Mackay Sugar<br>Comparable Company Descriptions                   |                     |  |
|---|---------------------|--|
| Company name  | Geographic location | Business description   |
| Shree Renuka Sugars Limited                                       | India               | Shree Renuka Sugars Limited manufactures and refines sugar in India and internationally. It operates through three segments: Sugar, Ethanol, and Power Generation. The company produces sugar and its by-products, including molasses, bagasse, and organic manure; and potable and fuel-grade ethanol. It also generates power from bagasse, and sells to national grids. The company was incorporated in 1995 and is headquartered in Belgaum, India. Shree Renuka Sugars Limited is a subsidiary of Wilmar Sugar Holdings Pte. Ltd.   |
| Bajaj Hindusthan Sugar Limited                                    | India               | Bajaj Hindusthan Sugar Limited manufactures and sells sugar and ethanol in India. The company operates through Sugar, Distillery, and Power segments. It offers sugar by-products, such as bagasse, molasses, fly ash, and press mud; and bio-compost/bio-manure. The company also generates and sells bagasse-based power to the Uttar Pradesh state grid. It serves customers in alcohol-based chemical plants and oil companies. The company was formerly known as Bajaj Hindusthan Limited and changed its name to Bajaj Hindusthan Sugar Limited in January 2015. Bajaj Hindusthan Sugar Limited was incorporated in 1931 and is based in Noida, India.   |
| Nanning Sugar Industry Co.,Ltd.                                   | China               | Nanning Sugar Industry Co.,Ltd. produces and sells sugar and paper products in China and internationally. It offers white sugar under the green food, Yunou, Gufu, Damingshan, and Mingyang brand names; fertilizers and logistics vehicles under the Yunou brand names; and maternal and infant towel, diapers, sanitary napkins, insole, and care products, as well as health care solutions under the Shuya brand names. The company also provides toilet papers; raw paper for food packaging; bleached bagasse pulp; Paper cutlery; and cement products. The company was founded in 1996 and is based in Nanning, China.  |
| Kaset Thai International Sugar Corporation Public Company Limited | Thailand            | Kaset Thai International Sugar Corporation Public Company Limited manufactures and distributes sugar in Thailand. It manufactures and distributes raw, white, and refined sugar; molasses products or sugar residues that are used as a raw material in various products, such as food and ethanol; dry and wet pulp; bio-fertilizers; and ethanol products, including industrial and fuel alcohol. The company is also involved in the generation and sale of electricity through a biomass power plant with a capacity of 60 MW; trading and rental of properties; and rental of agricultural machinery for farmers. In addition, it offers asset management, and research and development services. The company was formerly known as Kaset Thai Industry Sugar Company Limited. The company was founded in 1957 and is headquartered in Nakhon Sawan, Thailand. Kaset Thai International Sugar Corporation Public Company Limited is a subsidiary of Siriwiriyaikul group. |
| Guangxi Yuegui Guangye Holdings Co., Ltd.                         | China               | Guangxi Yuegui Guangye Holdings Co., Ltd. primarily manufactures and sells sugar and paper products in China and internationally. It offers white sugar, raw sugar, machine paper, bagasse lignin raw material pulp, compound fertilizer, light calcium carbonate, alcohol, and caustic soda. The company was formerly known as Guangxi Guitang (Group) Co., Ltd. and changed its name to Guangxi Yuegui Guangye Holdings Co., Ltd. in July 2018. The company was founded in 1956 and is based in Guigang, China. Guangxi Yuegui Guangye Holdings Co., Ltd. is a subsidiary of Shenzhen Huaqiang Holdings Limited.   |

| Mackay Sugar<br>Comparable Company Descriptions |                     |   |
|---|---------------------|---|
| Company name                                    | Geographic location | Business description  |
| JDW Sugar Mills Limited                         | Pakistan            | JDW Sugar Mills Limited, together with its subsidiaries, produces and sells crystalline sugar, and other related joint and by-products in Pakistan, other Asian countries, and Africa. The company operates through four segments: Sugar, Co-Generation, Corporate Farms, and Others. It also produces and sells electricity to the National Transmission & Despatch Company Limited; and manages corporate farms for the cultivation of sugar cane, cotton, moong, and wheat. The company was incorporated in 1990 and is headquartered in Lahore, Pakistan.   |
| Buriram Sugar Public Company Limited            | Thailand            | Buriram Sugar Public Company Limited, together with its subsidiaries, manufactures and distributes sugar and molasses in Thailand and internationally. The company offers brown, white, and raw sugar. It is also involved in trading of agricultural products; generation and distribution of electricity using biomass source; and production of organic and organic chemical fertilizers using filter cakes, as well as provision of research and development services to enhance the productivity of cane growers. Buriram Sugar Public Company Limited was founded in 1964 and is headquartered in Khu Mueang, Thailand.   |
| Triveni Engineering & Industries Limited        | India               | Triveni Engineering & Industries Limited engages in sugar and engineering businesses in India and internationally. It manufactures and sells white crystal sugar for house hold customers, multinational beverage companies, food and fast moving consumer goods (FMCG) companies, pharmaceutical companies, and confectionery producers; and offers sugar under the Shagun brand name. The company also sells surplus molasses and bagasse produced as a by-product in the manufacture of sugar; produces ethanol, extra neutral alcohol, rectified spirit, and special denatured spirit; and operates 104.5 MW grid connected cogeneration capacity. In addition, it manufactures and sells high speed gears and gear boxes for steam and gas turbines, compressors, pumps, blowers, and test rigs; and low speed gearboxes for use in reciprocating pumps and compressors, hydel turbines, mills, and extruder drives for metal, sugar, rubber, and plastic industries, as well as marine applications, etc. Further, the company provides aftermarket solutions, including emergency breakdown support, such as repair or rush delivery of parts, diagnostics and troubleshooting support, reverse engineering and dimensioning expertise at site or in-house, drop-in replacements of gearbox and gear internals, replacements/development of spare white metal bearings, etc. Additionally, it offers engineered to order process equipment and solutions in the water and wastewater management, as well as recycles water; trades in various FMCG; and retails diesel/petrol through its operated fuel station. Triveni Engineering & Industries Limited was incorporated in 1932 and is headquartered in Noida, India. |
| Dhampur Sugar Mills Limited                     | India               | Dhampur Sugar Mills Limited operates as an integrated sugarcane processing company in India. The company operates through three segments: Sugar, Chemicals, and Power. It manufactures and sells refined sugar and white sugar; ethanol, rectified spirit, extra neutral alcohol, special denatured spirit, and ethyl acetate; carbon dioxide; and bio-fertilizers. The company also generates power using bagasse. It operates cogeneration facilities with a total installed capacity of approximately 220.5 megawatts. Dhampur Sugar Mills Limited was founded in 1933 and is based in New Delhi, India.   |

| Mackay Sugar<br>Comparable Company Descriptions |                     |   |
|---|---------------------|---|
| Company name                                    | Geographic location | Business description  |
| Dalmia Bharat Sugar and Industries Limited      | India               | Dalmia Bharat Sugar and Industries Limited engages in the sugar business primarily in India. It operates through Own Manufactured Sugar, Power, Distillery, and Others segments. The company manufactures and sells sugar to institutional buyers; and by-products, such as bagasse and molasses to generate power. It also produces and sells alcohol, including rectified spirits, extra neutral alcohol, denatured spirits, and ethanol or power alcohol. In addition, the company generates and sells bagasse-based power through integrated plants with a capacity of 79 MW; operates wind farms with a total capacity of 16.5 MW located in Tamil Nadu; and is incubating a solar power plant with a capacity of 10 MW in Rajasthan. Further, it engages in the magnesite, travel, and electronics businesses; and production and sale of organic manure to farmers and tea estates. The company was incorporated in 1951 and is headquartered in New Delhi, India.   |
| Uttam Sugar Mills Limited                       | India               | Uttam Sugar Mills Limited manufactures and sells cane sugar and other allied products under the Uttam brand name in India. The company also produces industrial alcohol; and generates electricity from bagasse/biomass. It serves the retail, bakery, hospitality, alcoholic and non-alcoholic beverage, and pharmaceutical industries. The company was formerly known as Associated Sugar Mills Limited and changed its name to Uttam Sugar Mills Limited in November 1998. Uttam Sugar Mills Limited was incorporated in 1993 and is based in Noida, India.  |
| Victorias Milling Company, Inc.                 | Philippines         | Victorias Milling Company, Inc. manufactures sugar in the Philippines and internationally. The company operates through Sugar Milling, Distillery Operations, Power Generation, and Other Operations segments. It offers raw and refined sugar; molasses; and alcohol and bagasse. The company also produces and sells canned sardines, hot bangus, mackerel, luncheon meat, lechon paksiw, ham, bacon, and other meat products; develops and sells real estate properties; develops, operates, and sells memorial lots; operates a golf club; and acquires and owns agricultural lands and properties. In addition, it leases parcels of land to planters; provides entertainment services; and generates and wholesales renewable electricity. Victorias Milling Company, Inc. was founded in 1919 and is based in Victorias, the Philippines.  |
| Associated British Foods plc                    | United Kingdom      | Associated British Foods plc operates as a diversified food, ingredients, and retail company worldwide. It operates through five segments: Grocery, Sugar, Agriculture, Ingredients, and Retail. The Grocery segment manufactures and sells grocery products, including hot beverages, sugar and sweeteners, vegetable oils, balsamic vinegars, bread and baked goods, cereals, ethnic foods, and meat products to retail, wholesale, and foodservice businesses. The Sugar segment is involved in growing, processing, and sale of sugar beet and sugar cane to industrial users. The Agriculture segment manufactures and sells animal feeds; and provides other products and services for the agriculture sector. The Ingredients segment manufactures bakers' yeast, bakery ingredients, enzymes, lipids, yeast extracts, and cereal specialties. The Retail segment is involved in buying and merchandising clothing and accessories through the Primark and Penneys retail chains, which offer womenswear, lingerie, children's wear, menswear, footwear, accessories, hosiery, beauty, and homeware. The company was founded in 1935 and is headquartered in London, the United Kingdom. Associated British Foods plc is a subsidiary of Wittington Investments Limited. |

| Mackay Sugar<br>Comparable Company Descriptions |                     |  |
|---|---------------------|--|
| Company name                                    | Geographic location | Business description   |
| Rogers Sugar Inc.                               | Canada              | Rogers Sugar Inc., through its subsidiary, Lantic Inc., engages in refining, packaging, and marketing sugar and maple products. It offers granulated, plantation raw, brown, organic, icing, maple, stevia, smart sweetener blend, and coconut sugar, as well as syrups, jam and jelly mixes, iced tea mixes, and hot chocolate mixes. The company markets its products to industrial, consumer, and liquid product markets under the Lantic name in Eastern and Rogers name in Western Canada, as well as in the United States and internationally. Rogers Sugar Inc. was founded in 1997 and is headquartered in Vancouver, Canada.  |
| ASTARTA Holding N.V.                            | Ukraine             | ASTARTA Holding N.V., through its subsidiaries, engages in the sugar production, crop growing, soybean processing, and cattle farming businesses in Ukraine, Europe, CIS, and Asia. The company is involved in the production and wholesale distribution of sugar and related products comprising molasses and sugar beet pulp granulated. It also engages in growing and selling grain and oilseed crops; and producing and selling fodder and gas, as well as milk and meat products. In addition, the company is involved in the provision of asset management, as well as research and development, bioenergy generation, insurance, and trade and investment activities. ASTARTA Holding N.V. was founded in 1993 and is based in Kyiv, Ukraine.                |
| Nippon Beet Sugar Manufacturing Co., Ltd.       | Japan               | Nippon Beet Sugar Manufacturing Co., Ltd. manufactures and sells sugar products in Japan. The company offers beet sugar, refined sugar, beet molasses, fine molasses, and liquid sugar; raw, dry, and medicinal yeast; and feed for dairy and beef cattle, as well as beet pulp products. It also manufactures and sells paper cylinders, seeds, oligosaccharides, etc.; and purchases and sells agricultural machines for beets, leaf tobaccos, vegetables, flowers, rice, and timber. In addition, the company offers raffinose, betaine, melibiose, DFAIII, seedlings, and synthetic peats products. Further, it is involved in real estate leasing business. Nippon Beet Sugar Manufacturing Co., Ltd. was founded in 1919 and is headquartered in Tokyo, Japan. |
| Rana Sugars Limited                             | India               | Rana Sugars Limited manufactures and sells sugar, molasses, and bagasse in India. It operates through three segment: Sugar Manufacturing, Ethanol Manufacturing, and Power Generation. The company offers double refined white sulphur less, plantation white, and raw sugar, as well as sugar from sugar beet. It also produces power from bagasse; manufactures various grades of alcohol, such as rectified spirit and potable grade extra neutral alcohol, as well as liquor; and offers sugar beet pulp as cattle feed. The company was incorporated in 1991 and is headquartered in Chandigarh, India.   |

| Mackay Sugar<br>Comparable Company Descriptions |                     |   |
|---|---------------------|---|
| Company name                                    | Geographic location | Business description  |
| DCM Shriram Industries Limited                  | India               | DCM Shriram Industries Limited manufactures and sells sugar, alcohol, power, chemicals, and industrial fibers in India and internationally. The company operates through Sugar, Industrial Fibres and Related Products, and Chemicals segments. It offers various sugar products comprising plantation white crystal sugar; refined sugar for pharmaceutical and food companies; and sugar cubes, sugar sachets, breakfast sugar, and packaged crystal sugar for use in hotels, airlines, railways, hospitals, restaurants, clubs, fast food chains, caterers, and homes. The company also provides bulk alcohol products, such as rectified spirit, extra neutral alcohol, and anhydrous alcohol to liquor and chemical manufacturers, oil companies, and pharmaceutical industry; and country liquor/IMFL. In addition, it provides various chemical products comprising aromatic chemicals/drug intermediates and other chemicals. Further, the company offers rayon products, including rayon tyre yarns, rayon tyre cords, rayon tyre cord greige fabrics, and R.F.L. treated fabrics; nylon products, including square woven chafer fabrics, tyre cord fabrics, and R.F.L. treated fabrics; and chemicals, such as anhydrous sodium sulphate and carbon-di-sulphide. Additionally, it is involved in power generation activities. The company was founded in 1932 and is based in New Delhi, India. |
| AD Fabrika Secera Sajkaska                      | Serbia              | AD Fabrika Secera Sajkaska manufactures and sells beet sugar. The company was founded in 1976 and is based in Žabalj, Serbia. AD Fabrika Secera Sajkaska is a subsidiary of Hellenic Sugar Industry S.A.  |
| GrainCorp Limited                               | Australia           | GrainCorp Limited operates as a food ingredients and agribusiness company in Australasia, Asia, North America, Europe, the Middle East, North Africa, and internationally. The company operates in three segments: Grains, Malt, and Oils. The Grains segment receives, transports, tests, stores, and exports/imports grains comprising wheat, barley, canola, and sorghum, as well as other bulk commodities. It also markets grain and agricultural products; and operates grain pools. The Malt segment produces malt products; provides brewing inputs and other malting services to brewers and distillers; sells farm inputs; and exports malt. The Oils segment is involved in processing and crushing oilseeds; supplying edible oils and feeds; operating bulk liquid port terminals; and the provision of storage, packaging, transportation, and logistics services. GrainCorp Limited was founded in 1916 and is headquartered in Sydney, Australia.   |
| Nufarm Limited                                  | Australia           | Nufarm Limited, together with its subsidiaries, manufactures and sells crop protection products in Australia, New Zealand, Asia, Europe, North America, and Latin America. It operates through two segments, Crop Protection and Seed Technologies. The company offers herbicides, insecticides, and fungicides to protect crops from damage caused by weeds, pests, and diseases. It also provides seeds and seed treatment products; and engages in croplands equipment business. The company is headquartered in Laverton North, Australia.  |

| Mackay Sugar<br>Comparable Company Descriptions |                     |   |
|---|---------------------|---|
| Company name                                    | Geographic location | Business description  |
| Costa Group Holdings Limited                    | Australia           | Costa Group Holdings Limited produces, packs, and markets fruits and vegetables to food retailers and FMCG companies in Australia. The company operates through three segments: Produce, Costa Farms & Logistics, and International. It offers mushrooms, blueberries, raspberries, tomatoes, citrus, avocados, bananas, grapes, and other fruits. The company also provides chilled logistics warehousing and services; and wholesale and marketing services. In addition, it engages in licensing blueberry varieties in Australia, the Americas, China, Africa, and internationally; and berry farming activities in Morocco and China. Costa Group Holdings Limited has approximately 3,500 planted hectares of farmland, 30 hectares of glasshouse facilities, and 7 mushroom growing facilities across Australia. The company primarily exports its products to Asia, North America, and Europe. The company was founded in 1888 and is based in Ravenhall, Australia.  |
| Bega Cheese Limited                             | Australia           | Bega Cheese Limited engages in receiving, processing, manufacturing, and distributing dairy and other food-related products primarily in Australia. The company operates in two segments, Bega Cheese and Tatura Milk. The Bega Cheese segment manufactures, packages, and sells natural cheese, processed cheese, powders, butter, and branded food products. The Tatura Milk segment manufactures, packages, and sells cream cheese, commodity powders, butter, and nutritional powders. The company also operates as a contract packer of natural cheddar and processed cheddar cheese products for corporations. In addition, it is involved in contract packaging for private proprietary brands, supermarket house brands, and QSR raw material inputs, as well as products for other dairy companies into their brands. The company also exports its products to approximately 40 countries across the Middle East, Southeast Asia, North Asia, Central and South America, and the Pacific Islands. Bega Cheese Limited was founded in 1899 and is headquartered in Bega, Australia. |
| Australian Agricultural Company Limited         | Australia           | Australian Agricultural Company Limited produces and sells cattle and beef in Australia. The company engages in owning, operating, and developing pastoral properties; producing beef, including breeding, backgrounding, feedlotting, and processing cattle; and the production of grass fed beef, grain fed beef, and Wagyu beef. The company operates under the Wylarah, Westholme, Master Kobe, Kobe Cuisine, and Darling Downs Wagyu brands. It operates an integrated cattle production system across 19 owned cattle stations, 2 leased stations, 7 agisted properties, 2 owned feedlots, a beef processing facility, and 2 owned farms covering an area of approximately 7 million hectares of land in Queensland and the Northern Territory. The company also exports its products. Australian Agricultural Company Limited was founded in 1824 and is based in Brisbane, Australia.   |



| Mackay Sugar<br>Comparable Company Descriptions |                     |  |
|---|---------------------|--|
| Company name                                    | Geographic location | Business description   |
| Elders Limited                                  | Australia           | Elders Limited provides livestock, real estate, and wool agency services to rural and regional customers primarily in Australia. It operates through Network, Feed and Processing, and Other segments. The company offers rural farm inputs, such as seeds, fertilizers, agricultural chemicals, animal health products, and general rural merchandise, as well as professional production and cropping advisory services. It also provides on-farm sales to third parties, regular physical, and online public livestock auctions, as well as directly sells through its owned and third-party feedlots and livestock exporters; agency services for the sale of greasy wool; brokering services for wool growers; and grain marketing services. In addition, the company offers farms, stations, and lifestyle estates marketing; residential real estate agency and property management; and water and home loan broking services. Further, it provides a range of banking, insurance, and financial planning products and services. Additionally, it operates a beef cattle feedlot; and imports, processes, and distributes Australian meat in China and Indonesia. The company is involved in the investment activities. Elders Limited was founded in 1839 and is headquartered in Adelaide, Australia.   |
| Select Harvests Limited                         | Australia           | Select Harvests Limited engages in processing, packaging, marketing, and distributing edible nuts, dried fruits, seeds, and a range of natural health foods in Australia. The company operates through Almond Division and Food Division segments. It also grows, processes, and sells almonds to the food industry from company owned and leased almond orchards; and provides a range of management services to external owners of almond orchards, including orchard development, tree supply, farm management, and land and irrigation infrastructure rental, as well as markets and sells almonds on behalf of external investors. In addition, the company offers health snacks and muesli; and holds a portfolio of approximately 4,000 hectares of company owned, leased, and joint venture almond orchards. It also exports its products to India and China, as well as rest of Asia, Europe, and the Middle East. The company offers its products to retailers, distributors, and industrial users under the Lucky, Sunsol, NuVitality, and Soland brands in the retail markets, as well as the Renshaw and Allinga Farms brands in the wholesale and industrial markets. The company is headquartered in Thomastown, Australia.   |
| Ruralco Holdings Limited                        | Australia           | Ruralco Holdings Limited sells and markets merchandise, fertilizers, water products, and financial services products to rural and related customers in Australia. It operates through Rural Services, Water Services, Live Export, and Financial Services segments. The company offers agronomic advisory and agency services, as well as sells supplies, such as fertilizers, crop-protection products, and general farm merchandise; and insurance broking, finance broking, and commodity advice and analysis services. It is also involved in the sale of domestic, civil, industrial, and agricultural irrigation products and parts; design, construction, installation, and maintenance of on-farm water infrastructure solutions; and brokering the purchase and sale of temporary and permanent water entitlements, as well as export of feeder and slaughter cattle. In addition, the company provides grain trading services; wool marketing services; livestock specialist services, including advice on buying and selling livestock, herd selection, and genetics for dairy and beef cattle and sheep; and agricultural advisory, risk analysis, and management services. Further, it engages in the marketing and selling rural, rural lifestyle, commercial, and residential real estate properties. Ruralco Holdings Limited is based in Macquarie Park, Australia. |



| Mackay Sugar<br>Comparable Company Descriptions |                     |  |
|---|---------------------|--|
| Company name                                    | Geographic location | Business description   |
| Ridley Corporation Limited                      | Australia           | Ridley Corporation Limited, together with its subsidiaries, provides animal nutrition solutions in Australasia. It operates through two segments, AgriProducts and Property. The company provides its animal nutrition solutions to food producers in dairy, poultry, pig, aquaculture, sheep, and beef industries; laboratory animals in the research sector; and the equine and canine markets in the recreational sector. Its animal meals include meat and bone meal, poultry meal, hydrolysed feather meal, blood meal, fish meal, and animal fats. The company offers its products primarily under the Barastoc, Rumevite, Cobber, and Primo brands. It is also involved in the sale of residual properties. The company was founded in 1987 and is headquartered in Melbourne, Australia. |
| Duxton Broadacre Farms Limited                  | Australia           | Duxton Broadacre Farms Limited primarily engages in the sowing and harvesting of dryland and irrigated crops in Australia. The company is also involved in the infrastructure maintenance and upgrade; trading and breeding of livestock; and sale of grains, pulses, and lucerne. Its products include hay, oils, cotton, mungbean, chickpea, wheat, barley, and canola, as well as cattle, sheep, and wool. The company was formerly known as Merriment Rural Investments Pty Ltd and changed its name to Duxton Broadacre Farms Limited July 2017. Duxton Broadacre Farms Limited was incorporated in 2008 and is based in Stirling, Australia.   |
| Australian Dairy Nutritionals Group             | Australia           | Australian Dairy Nutritionals Group operates as an integrated dairy producer. It operates through Dairy Farms and Dairy Processing segments. The Dairy Farms segment owns and operates dairy farms and dairy livestock for the production and sale of fresh raw milk for converting into milk and milk products. The Dairy Processing segment processes and sells dairy products, including milk, yoghurt, and butter to Australian and export markets. The company was founded in 1992 and is based in Brisbane, Australia.   |

Source: Capital IQ

## Appendix 9 – Comparable Target Company Descriptions

Summarised below are the descriptions of the comparable target companies:

### Australian Transactions

| Mackay Sugar<br>Target Company Descriptions        |   |
|--|---|
| Target company name                                | Business Description  |
| Wilmar Sugar Australia Limited (formally Sucrogen) | Wilmar Sugar Australia Limited engages in the cane products, sweeteners, and ethanol businesses in Australia and internationally. It produces and sells raw sugar; and by-products, such as bagasse and molasses, as well as generates renewable energy from biomass. The company also produces food-grade products; and holds distribution rights to equal a low calorie artificial sweetener in Australia and New Zealand. In addition, it produces and sells ethanol, which is used in fuels, pharmaceuticals, food and beverages, cosmetics, printing, aerosols, and paints, as well as produces agricultural fertilizers. Wilmar Sugar Australia Limited was formerly known as Sucrogen Limited and changed its name to Wilmar Sugar Australia Limited in May 2013. The company was incorporated in 2001 and is headquartered in Townsville, Australia. As of March 15, 2016, Wilmar Sugar Australia Limited operates as a subsidiary of Wilmar International Limited. |
| MSF Sugar Limited                                  | MSF Sugar Limited grows, processes, markets, and exports raw sugar. The company also produces and trades molasses and bagasse. It exports sugar primarily to Japan, South Korea, China, and Indonesia. The company was formerly known as The Maryborough Sugar Factory Limited and changed its name to MSF Sugar Limited in May 2011. The company was founded in 1886 and is based in Gordonvale, Australia. The company has sugar mills in Gordonvale, South Johnstone, Atherton Tablelands, and Maryborough. As of February 23, 2012, MSF Sugar Limited operates as a subsidiary of Mitr Siam International PTE. LTD.   |

| Mackay Sugar<br>Target Company Descriptions               |  |
|---|--|
| Target company name                                       | Business Description   |
| Tully Sugar Limited                                       | Tully Sugar Limited operates sugar mills in Australia. The company produces and exports raw sugar. It also produces molasses as a by-product of the sugar extraction process for domestic cattle feed and the international markets. In addition, it owns and operates cane farms; and has commercial and residential real estate interests in Tully. The company was founded in 1925 and is based in Tully, Australia. Tully Sugar Limited operates as a subsidiary of COFCO Sugar (Hong Kong) Limited.                 |
| Proserpine Co-operative Sugar Milling Association Limited | As of December 9, 2011, Proserpine Co-operative Sugar Milling Association Limited was acquired by Wilmar Sugar Australia Limited. Proserpine Co-operative Sugar Milling Association Limited manufactures sugar. The company also offers by-products, such as bagasse, ash, filter mud, and molasses. The company was founded in 1897 and is based in Proserpine, Australia.  |
| Northern Milling Joint Venture                            | As of April 25, 2011, Northern Milling Joint Venture was acquired by MSF Sugar Limited. Mulgrave, South Johnstone And Tableland Mills comprises sugar mills. The asset is located in Queensland, Australia.  |
| The Mulgrave Central Mill Company Limited                 | The Mulgrave Central Mill Company Limited, a sugar mill, produces and exports raw sugar. The company also engages in the maintenance of a cane railway system, which is used to haul cane. It also generates power required by the factory for operation during the crushing season and exports electricity to the State grid. The company was incorporated in 1893 and is based in Gordonvale, Australia. As of July 11, 2008, The Mulgrave Central Mill Company Limited operates as a subsidiary of MSF Sugar Limited. |

Source: Capital IQ

## International Transactions

| Mackay Sugar<br>Target Company Descriptions |   |
|---|---|
| Target company name                         | Business Description  |
| Dalmia Bharat Limited                       | Dalmia Bharat Limited manufactures and markets cement in India. The company offers Portland slag and Portland Pozzolana cement. It also provides management consulting services; produces sugar; generates and exports renewable energy; and supplies refractory products. The company was formerly known as Dalmia Bharat Enterprises Limited and changed its name to Dalmia Bharat Limited in November 2012. Dalmia Bharat Limited was founded in 1935 and is headquartered in New Delhi, India. As of October 30, 2018, Dalmia Bharat Limited operates as a subsidiary of Odisha Cement Limited.   |
| Bien Hoa Sugar Joint Stock Company          | Bien Hoa Sugar Joint Stock Company produces and sells sugar in Vietnam. It is also involved in growing sugar cane; production of sugar from sugar cane and byproducts; and production and sale of alcohol products and residual bagasse products. In addition, the company engages in the construction of industrial and civil works; warehousing services; production and trading of electricity business; real estate business; road transportation of goods; mechanical engineering services; and scrap liquidation activities. Further, it produces and sells fertilizers and agricultural supplies; and buys and sells agricultural products. Bien Hoa Sugar Joint Stock Company was founded in 1968 and is based in Bien Hoa, Vietnam. As of November 21, 2017, Bien Hoa Sugar Joint Stock Company operates as a subsidiary of Thanh Thanh Cong - Bien Hoa Joint Stock Company. |
| L.B. Maple Treat Corporation                | L.B. Maple Treat Corporation produces and distributes maple syrup in range of grades and containers. It offers maple syrup products, including bulk, candies and sugar granules, coffees/teas, cookies, fruit syrups, gift packages, gourmet line, pure maple syrup, spreads, pure maple syrup, and pure organic maple syrup. The company also offers bulk products for private label brands. It distributes its products in Canada and the United States; and exports to Asia and Europe. The company was founded in 1975 and is based in Granby, Canada with a distribution center in Burnaby, Canada. As of August 5, 2017, L.B. Maple Treat Corporation operates as a subsidiary of Lantic Inc.   |

| Mackay Sugar<br>Target Company Descriptions   |  |
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| Target company name   | Business Description   |
| Tereos Açúcar e Energia Brasil S.A.   | Açucar Guarani S.A. cultivates, produces, and sells sugar, ethanol, and other sugarcane by-products primarily in Brazil and Mozambique. The company also generates and sells power. In addition, it provides plantation services to third parties. The company was founded in 1967 and is based in Olímpia, Brazil. Açucar Guarani S.A. operates as a subsidiary of Tereos Participations S.A.S.   |
| Illovo Sugar Limited  | Illovo Sugar Limited produces and sells sugar and downstream products. The company offers industrial sugar, including refined bulk sugar primarily to soft drink, confectionery, canning, and re-packing customers; refined and brown pre-pack sugar under the Illovo, Whitespoon, and Bwana Sukari names for retail and wholesale customers; bulk raw sugar for refining; specialty sugars; and syrup products. Its downstream products include ethanol, furfural and furfuryl alcohol, diacetyl, 2,3-pentanedione, agricultural nematicides, natural methanol, ethanol potable extra neutral alcohol, anhydrous alcohol, rectified extra neutral alcohol, industrial alcohol, and lactulose. The company's downstream products also comprise Crop Guard that is used as an agricultural contact nematicide at planting; MultiGuard Protect, which is developed and marketed as an agricultural contact-nematicide; Protect that is used as a nematicide and fungicide prior to planting; and BioMass Sugar, which is used as phytofortifiers/soil improvers or as liquid organic fertilizers. It is also involved in cane growing and electricity exports activities. The company markets its products in Malawi, Mozambique, South Africa, Swaziland, Tanzania, and Zambia. Illovo Sugar Limited also exports its products primarily to the European Union and the United States. The company is headquartered in Durban, South Africa. Illovo Sugar Limited is a subsidiary of ABF Overseas Limited. |
| Gia Lai Cane Sugar ThermoElectricity Joint Stock Company (nka:Thanh Thanh Cong Gia Lai Limited Company) | Thanh Thanh Cong Gia Lai Limited Company produces and sells sugar and sugar products in Vietnam. The company offers molasses, confectioneries, and beverages. It also manufactures fertilizers and nitrogen compounds, mineral water and purified bottled water, and tunnel bricks; processes agricultural products; operates restaurant and hotels; and provides mechanical, catering, and road cargo transportation services. In addition, the company is also involved in the trafficking project of agricultural and forestry materials; wholesale of machinery, equipment, and spare parts of agricultural machines; treatment and coating of metals; and construction of other civil engineering projects. Further, it engages in the distilling, rectifying, and blending of spirits; production, transmission, and distribution of electricity; and investment of growing sugarcane seeds and materials, as well as in financial investment activities. The company is based in Ayun Pa, Vietnam. Thanh Thanh Cong Gia Lai Limited Company is a subsidiary of Thanh Thanh Cong Tay Ninh Joint Stock Company.   |

| Mackay Sugar<br>Target Company Descriptions |   |
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| Target company name                         | Business Description  |
| Empresas Iansa S.A.                         | Empresas Iansa S.A. engages in the production, marketing, and distribution of sugar and beet co-products in Chile. The company provides sugar products, including granulated sugar, specialties, sugar light, and liquid sugar; ingredients in the sugar market for bottlers and processed food companies; molasses; tomato paste; and concentrated juices of fruits and vegetables. It also offers animal nutrition products comprising cattle feed under the Cosetán and Suralim brands, and equine feed under the Optimix brand; and dog food under the Cannes brand and cat food under the Felinnes brand. In addition, the company offers silos and equipment; and specialized technical advice and agricultural inputs with a financing condition. Empresas Iansa S.A. was founded in 1953 and is based in Santiago, Chile. |
| Vishnu Sugar Mills Ltd.                     | Vishnu Sugar Mills Limited manufactures and trades sugar in India. The company's products include sugar, molasses, and bagasse; and vermi compost. It also grows cane seed; and manufactures organic fertilizer by using press mud and other sugar mill waste for use in food grains, vegetables, fruits, sugarcane, tea plantation, etc. The company offers fertilizers under the HARYALI brand name. Vishnu Sugar Mills Limited was founded in 1932 and is based in Kolkata, India.   |

Source: Capital IQ