Who we are and what we do

We are Australia’s second largest sugar milling company with over 130 years’ experience. We have three operating milling sites at Farleigh, Marian and Racecourse.

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. As part of its strategy for greater efficiency, the North Eton, Cattle Creek and Pleystowe mills were closed in 1988, 1990 and 2009 respectively and their plant and equipment integrated into the remaining mills.

The need to be flexible and to maximise our business opportunities led shareholders to vote in favour of incorporating Mackay Sugar Limited to a restricted public company in July 2008. Our revenue base includes raw and refined sugar, molasses and electricity.

We hold a 25% interest in the Sugar Australia Joint Venture, comprising Sugar Australia and New Zealand Sugar Company. Sucrogen Limited and its subsidiaries hold the remaining 75% stake in these refining businesses. Product from the joint venture refineries, located at Mackay’s Racecourse Mill, Yarraville in Victoria and Auckland, is marketed by Sugar Australia Limited and New Zealand Sugar Company.

Our people

As at 31 May 2012, we employed 620 people across a variety of roles to carry out our operations. These include all planning, procurement, information technology, human resources, accounting, administrative, trade, technical and processing roles. An additional 260 people are employed on a seasonal basis to assist permanent staff with our crushing season (May–November) operations, which sees our total employee numbers rise to approximately 883.

The above information and content within this report reflects our business as at 31 May 2012; please visit our website at www.mkysugar.com.au to review the current status of our Company.
Our Vision

To be THE innovative, world-class, diversified sugarcane-based business in Australia delivering exceptional value to stakeholders.
This report illustrates our corporate, environmental and social activities that support our commitment to growing the future of our business for the betterment of shareholders, employees and the wider community.

This is an annual overview of our operations and financial performance results for the year ended 31 May 2012. Significant events occurring after the reporting period, yet prior to the printing of this report (September 2012) are detailed in Events after the reporting period end date on page 72. Our reporting period aligns with our crushing season – May to November.

This report is aimed at enhancing the awareness of our business and confidence in our business strategy. It highlights that we remain true to our vision and continue to implement innovative business plans and strengthen our diversification focus to create more value for our shareholders.

In addition, it explores our valuable relationships with shareholders, growers, employees, the community, government, and other industry stakeholders.

Critical to the growth of our business is cane supply, as it is not only required for the production of sugar, it also provides the feedstock of our diversification initiatives. During the year under review we have made significant progress towards expanding the area of land under cane within our supply zone. Therefore, the theme of this report is cane expansion.

We invite your feedback

We would like to know what you think of this report as it will assist us to not only ensure we improve our reporting standards but also provide you with the information you require as a stakeholder. You will also find this report, previous reports and various other Mackay Sugar publications on our website – www.mkysugar.com.au.

Please provide any comments or suggestions about the content or design of this report via our Communications Manager on +61 7 4953 8543 or via our website – www.mkysugar.com.au (Contact Us).
Our Highlights & Challenges
for the year ended 31 May 2012

Cane Processed (million tonnes)

Sugar Production (tonnes IPS)

Sugar Price ($ per IPS tonne)

Operating Revenue ($million)

Net Assets ($million)

Operating Profit ($million)
The Year in Review

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Sun shining on cane flowers at sunrise.
It was yet another trying year for our business, with both the harvesting and milling sector still experiencing the impacts of the disappointing 2010 season, ultimately resulting in a net loss of $12.5 million, a $13.0 million decrease on the previous year. This included a $3.1 million impairment loss on Pleystowe Mill plant and equipment held-for-sale.

However, the year has also brought about favourable strategic outcomes, gained through our commitment to growing our future through increased cane supply, diversification and industry consolidation. These triumphs have marked the beginning of a new era for our Company and a prosperous future for our stakeholders. See Chief Financial Officer’s Review on page 16 and Financials on page 67 for further details of our financial performance.

**Weathering further crop impacts**

The difficulties of the 2011 season were attributable to the wet weather experienced throughout our cane supply area during the 2010 season. A total of 4.2 million tonnes (Mt) of cane was crushed (2010: 4.56Mt) from a harvested area of 69,070 hectares (ha) during the 2011 season, with an average yield of 60.3 tonnes per hectare (t/ha), 13t/ha lower than the 2010 crushing result of 73.3t/ha. This is the lowest record since 2000, when a yield of 55.9t/ha was achieved. See Cane Supply on page 19 for further details.

**Changing through industry rationalisation**

During the year, we continued to seek merger and acquisition opportunities with other Australian milling companies and, accordingly, investigated a takeover of the Proserpine Sugar Mill toward the end of 2011. However, we did not pursue this takeover, with Singapore based company Wilmar taking control of the mill in December 2011. In May 2012, we entered into a binding agreement to acquire the milling and related assets of Mossman Central Mill for $25.3 million. The acquisition will complement our operations, contribute to the growth of our core business, and create additional shareholder value. This is a positive step for our Company; it presents further cane expansion opportunities and will increase our sugar production. We will incentivise cane production and expect a 25% increase in cane supply over the next four years. The combination of the increased cane volumes and the cost savings in managing the Mossman Mill, as part of our operations, are expected to generate greater financial returns for our shareholders.

Terms and conditions of the acquisition included issuing approximately $12 million in Mackay Sugar shares and refinancing $13 million in debt. The shares, which amount to approximately 3.3% of the issued capital of our Company, will be held by Mossman Central Mill. The export sugar produced by Mossman Mill will continue to be marketed through Queensland Sugar Limited (QSL). However, Mossman Central Mill will retain its food-grade bagged sugar operation, marketed under the brand ‘Daintree Gold’. The bagged sugar operation will be supplied raw sugar by our Mossman Mill under a commercial agreement. The acquisition was completed out of the reporting period; 4 June 2012. See Significant changes in state of affairs and Events after the reporting period end date on pages 72 and 89 for further details.

**Strengthening our business through diversification**

We are fortunate to be involved in an industry that remains at the forefront of research and development projects associated with environmental sustainability. Sugarcane remains one of the key natural resources set to drive the global shift to a future that has minimised carbon emissions, achieved via increased ethanol and cogeneration projects. We can be proud to be a part of this exciting era for the sugar industry. Our very own $120 million Racecourse Cogeneration Project is now on the home straight, and only a matter of months away from commissioning as at 31 May 2012. Specifically, we can expect to supplement Ergon Energy’s electricity supply with our renewable energy from November 2012, providing enough energy to power one-third of Mackay and reduce our greenhouse gas emissions by about 200,000 tonnes (t) equivalent carbon dioxide (CO2e) each year. We continue to explore other diversification opportunities, as identified in our 20-year Diversification Plan, with the aim of developing not only our business, but a stronger future for our shareholders and employees. See Business on page 18 for further details.
Chairman’s Review
... continued

Growing our cane supply for a greener future

Our diversification capacity is strongly influenced by cane supply and, with this in mind, we continue to focus on identifying ways in which to increase cane supply to our mills. With the aim of increasing the area of land under cane by 5,000 ha before end 2016, we introduced a Cane Development Business Plan during the year. With an increased area under cane boosting overall productivity, we will ensure our mills are crushing to their capacity, boosting the production of sugar and valuable by-products, which of course deliver greater benefits to our stakeholders. We introduced an expressions of interest’ advertising campaign in late 2011 targeting land leasing and, as at 31 May 2012, had received an encouraging response. In early 2012, we used the information gathered from this process to further develop and implement a Land Leasing Scheme that benefits the land lessor, lessee and our Company.

During the year, we announced our fourth version of the Secure the Future Scheme, which is available for any ‘new’ land that has not grown cane for more than two years at a guaranteed sugar price of $500 per tonne. This equates to a cane price of approximately $43 per tonne of cane – the highest price we have offered under this scheme.

We also extended our Plant Loan Scheme to cover the 2012 season. First introduced in July 2011, the Scheme provides loans for both vertical (replanting of existing land) and horizontal (planting of ‘new’ land) expansion as a means of assisting growers to re-establish their farming area under cane, following the damage caused by the abnormal wet in 2010 and early 2011.

I am confident that our Cane Development Business Plan will facilitate new capital into the farming sector and, with a combination of our various planting and leasing schemes, we will be well positioned to reach our cane expansion objective and deliver on our diversification vision.

Enhancing our relationship with growers, shareholders and the community

We continued to engage and inform our shareholders and community members throughout the year, utilising traditional as well as online media. Our communication was strengthened with the introduction of our new website in April 2012, with the modern and user-friendly site providing up-to-date information about our business, including our ‘green’ projects, community involvement activities, career opportunities, cane development initiatives and education resources. A ‘Grower Login’ link also enables shareholders to access the grower website to review information applicable to their farms, sugarcane pricing and shareholdings.

We have also worked to improve our image within the community throughout the year, employing a new look for the company that promotes us as a modern, professional and growing, ‘green’ industry. The new branding has been implemented across our internal document templates and various advertising and publications, with it also being extended to our new sugar trucks, commissioned ahead of the 2012 crush. The Zarb Transport trucks display bold designs and messages around green projects, community and sugar production.

We understand the importance of community groups and not-for-profit organisations to our region and each year seek to provide financial and in-kind support to their invaluable services and activities. During the year, we introduced a specific Community Support Program that strategically targets community partnerships that benefit recipients and complement our organisational values. Through our Community Support Program, we proudly provided $55,550 to 30 groups and organisations throughout the Mackay region during the year (2011: $21,000; 16). See Community on page 52 for further details.

In early 2012, we undertook an extensive survey of our shareholders to canvas views on the strategic direction of our Company. Central Queensland University conducted the research, involving telephone interviews and a questionnaire (mailed directly to all shareholders). From this activity, we will gain a better understanding of shareholder views on issues such as future diversification projects and external equity, with the findings to be communicated to our shareholders in July 2012.

Changing our Constitution

Our shareholders voted in favour of amendments to the Constitution at our Annual General Meeting held in October 2011. Included in these amendments was a change to allow Investment Shares to be held by an expanded group of Permitted Shareholders. This amendment will give shareholders more flexibility in their shareholding and the ability for a variety of investors associated with the Company to hold Investment Shares.

Under the Constitution change, Investment Shares may be held by the following Permitted Shareholders:

- individual members of partnerships;
- shareholders of a corporation which is a grower;
- primary or default beneficiaries of a discretionary trust which is a grower;
- unit holders of a unit trust which is a grower;
- self-managed superannuation funds of which a Permitted Shareholder is a member.

The Board also approved that the Permitted Shareholder rule be extended to Unsecured Noteholders to give greater flexibility for current Noteholders and new Noteholders wishing to invest with the Company. Many shareholders have embraced the change, with encouraging feedback provided since its implementation.
Supporting research and development

We have continued to work with Canegrowers, the Australian Sugar Milling Council and the Australian Sugar Industry Alliance (ASIA) throughout the year to reform the sugar industry, by combining the existing research bodies into the one, sustainable and streamlined industry research organisation funded by millers and growers. Our Research, Development and Extension (RD&E) sector has experienced funding shortfalls, and different arrangements with individual milling companies have caused general dissatisfaction in previous years. This has led to uncertainty in the RD&E sector which has impacted on delivery to the industry. We hope to see a favourable outcome from the Sugar Poll to be conducted in August-September 2012.

See Business on page 18 for further details.

Looking ahead

During the year, we will celebrate a momentous milestone as we commission our Racecourse Cogeneration Project – the first of many more ‘green’ projects set to shape the future of our Company and our community. Cane supply security is critical to our diversification going forward, so we will do everything in our power to realise our goal of growing the land under cane by 5,000 ha in five years.

As at 31 May 2012, a crop of 5.5Mt was forecast for the 2012 season, so our focus for the year ahead will be on increasing the total of cane milled, and gaining an improved financial performance across our business.

We will work with our growers and industry partners to manage the impact of price hikes to both our region’s water and electricity supply, having learned of the increases at the end of the financial period. With an estimated electricity increase of approximately 15.7% and 48% to the cost of irrigation in some parts of the state, we can expect to see further challenges across our business, in particular our supply zone.

We will see the face of RD&E change, regardless of the outcome of the August Sugar Poll vote and will continue to encourage farm productivity via the various schemes available to our growers.

We will also continue to strengthen our stakeholder relationships, with a particular focus on enhancing communications with our shareholders and community members.

Acknowledgements

We have experienced a demanding year and yet have still managed to achieve positive outcomes. I thank our growers and shareholders, and every member of our Mackay Sugar workforce, for your assistance in the growth of our business.

I am confident that with your continued support of our various projects and activities, we will realise a prosperous future.

I also thank our Chief Executive Officer Quinton Hildebrand and the Executive team for their tireless efforts in striving to make Mackay Sugar a more robust and sustainable business.

Thank you to our grower leadership for their commitment to collaboratively working towards a brighter future for our industry, and to our local AgriServ (MAPS and BSES) for their efforts towards improving productivity in our region throughout the year.

I must also thank my fellow Board Directors, particularly my Deputy Ray Magill, for their outstanding dedication and professional contribution during the year.

Andrew Cappello
Chairman
Chief Executive Officer’s Review
The year certainly delivered a mix of highs and lows for our Company. We experienced poor milling and financial performance, a legacy of the 2010 season. On the other hand, we achieved growth within the key strategic areas of our business, realising an increased area under cane, and successfully delivering on cogeneration milestones.

Managing our operational performance

Our 2011 crushing season commenced at Farleigh Mill on 23 May with Marian Mill and Racecourse Mill commencing operations on 9 June. We ceased the season on 15 October 2011, with Marian Mill the last one to close.

We experienced a poor yielding crop that presented difficulties in our harvesting sector, with many farmers finding it a challenge to cover the required area day-to-day to meet allotments. This had an effect on our factory crushing rates and resulted in cane supply shortfalls. The season also involved several significant factory stoppages across our sites, putting our factory staff to the test and extending the season length by almost a week.

Farleigh Mill achieved a nominal crushing rate of 466 tonnes per hour (tph) for the 2011 season (386ph lower than the 2010 season). Marian Mill’s nominal crushing rate of 725ph was 19ph lower than the 2010 crushing season (744ph), and Racecourse Mill’s crushing rate of 436ph was 47ph lower than the 2010 season.

Targeted maintenance and capital works carried out during the 2010/11 maintenance period included the replacement of Farleigh’s No9 Pan entrainment baffle and final molasses cooler, and an upgrade of the remelt tank. Works at Racecourse Mill included the replacement of the evaporator condenser and new vacuum pumps for both evaporator sets, and the introduction of a revised ongoing chemical cleaning regime to improve overall performance. During the season, we saw an improvement in Marian Mill’s mud filter stage and the ability for the mill to process higher levels of mud and eliminate the levels of factory lost time which was encountered during the 2010 season.

Targeted maintenance on the filter stage at a cost in excess of $1.2 million during the 2010/11 shutdown period delivered this improved performance.

Marian Mill experienced significant lost time during the 2011 season, so our targeted maintenance works at the mill throughout the reporting period focused on improving the areas that contributed to the season’s poor performance. This involved the implementation of additional technical support for the site and effective plant inspections.

We experienced a fire on a bagasse conveyor belt at the Racecourse Mill, in February 2012, which caused considerable damage. However, importantly, due to the prompt action of employees on shift and emergency personnel, the fire was maintained with no harm to personnel involved. The incident, resulting from hot work activities undertaken within the vicinity, was investigated and recommendations regarding our Hot Work Procedure, Hot Work Permit and critical and fire impairment processes were provided. The conveyor system was repaired and recommissioned in April 2012, and returned to service. See Business on page 18 for further details.

Following a competitive review of the Transport of Raw Sugar services from our factories to the Racecourse Refinery and the Bulk Sugar Terminal at the Mackay Harbour, we appointed Zarb Road Transport to provide this service under a new five-year contract in late 2011. The transport company will add five new trucks and bodies to its fleet ahead of the 2012 crush and another four new trucks ahead of the 2013 season. This will see an increase in payload and a reduction in truck movements, with significant savings for our Company.

We worked towards improving our mud/ash (by-products of our sugar manufacturing process) delivery service throughout the year, implementing training for sub-contractor drivers with a particular focus on the consistency of application rates. We also recalibrated all factory mud moisture meters to ensure effectiveness for the 2012 season.

Maintaining value for our products

The 2011 season saw an average grower raw sugar price of $461.10 per International Pol Scale (IPS) tonne (2010: $431.67), whilst the miller average price was $466.87 per IPS tonne (2010: $452.10). These prices are a result of all sugar sales to both domestic and export markets, the combined marketing revenues and costs created by our Marketing department, and our share of Queensland Sugar Limited’s (QSL’s) marketing revenues and costs of operations.

Our molasses make for the 2011 season was slightly lower than usual, mostly due to the lower crop tonnage. About 11% of the molasses produced in the season was exported via the Mackay Bulk Sugar Terminal molasses facility by Australian Molasses Trading (AMT). An additional 70% of our molasses was sold through AMT but delivered to Sucrogen Bio-ethanol as distillery feedstock, with the remaining 19% sold via Champion Liquid Feeds into the domestic stock feed industry.

A new Refinery Services Heads of Agreement (HOA) and Raw Sugar HOA were negotiated during the year, with the signing expected to occur in June 2012. The five-year Refinery Services HOA with Sugar Australia involves us providing steam, electricity and general services to the Racecourse Refinery. The new agreement will afford us efficiency gains going forward and the ability to reduce our carbon tax liability.

The two-year Raw Sugar HOA will see us provide 450,000t of raw sugar each year to the Racecourse Refinery, complementing our business operations and providing certainty on revenue streams.

Developing our Racecourse Cogeneration Plant

Our Racecourse Cogeneration Project progressed from 41.1% complete to 89.9% complete in the financial year and remains ahead of schedule, with 265,742 man-hours of site work completed and only one Lost Time Injury (LTI) recorded. The budget forecast to completion remains within the original estimate of $120 million.

During the year, all civil works for the new boiler, steam turbine generator, cooling tower, demineralisation plant and export transformer were completed. The project’s civil works, erection of structural steelwork, furnace tube walls, and major mechanical components, cooling tower, fans and ductwork were able to be progressed sequentially as the components arrived on site. Pipework, electrical installation, insulation and cladding and refractory placement reached an advanced stage by the end of the financial year.
Ergon Energy’s work has progressed, with the switchyard and some pole placements completed. They also commenced construction of the five-kilometre, high voltage electricity connection from the 66 kilovolt switchyard on the Racecourse site to the Glenella feeder, north of the Pioneer River.

An application to construct an additional bagasse storage facility, adjacent to our Marian Mill, was lodged with Mackay Regional Council during the year. The facility will have the capacity to store up to 42,000 tonnes of bagasse during the crush (May to November) and supply the bagasse to our Racecourse Cogeneration Plant during the non-crush (December to April). Mill mud/ash will also be stored at the facility. Prior to end of May 2012, we had gained Council approval for the project, subject to additional design conditions which, at the end of May, had or were in the process of being addressed. We are hoping to complete construction of the facility by November 2012. See Business on page 18 for further details.

Investing in our people

Safety

We remain committed to our mission – to be a leader in safety and environmental management, and continue to strive to improve our safety performance each year. We recorded a decrease in the total number of injuries in key operational areas throughout the year. However, due to a reduction in total hours worked our injury frequency rates increased slightly. We recorded 7 LTIs during the year, the same record as last year. The Lost Time Injury Frequency Rate (LTIFR) at year ending May 2012 was 5.36, up 0.42 from the previous year’s figure of 4.94, as a result of fewer hours worked. Our Railway workgroup celebrated three years free of LTI in May 2012. Our overall injury frequency rate ranks well within the industry even though our All Injury Frequency Rate (AIFR) for the year was 143.07, which represents an increase of 6% on last year. As part of our commitment to safety, we maintain a proactive Safety Index that records safety performance, targeting 1.00 (100%) and, pleasingly, achieved this target as at end of May 2012. During the year we awarded employees a Safety Achiever of the Month, recognising their outstanding commitment to safety within their work area. See People on page 41 for further details.

People

During the reporting period, we operated in a booming economy, primarily driven by mining and mine service industries, which has created a labour market environment that is highly competitive. Therefore, we continue to develop new strategies to attract and retain our workforce. During the year, we introduced targeted retention payments for all tradespeople who fit certain criteria. Locomotive Crew employees, as an occupational group, have also been recognised for the retention payment which will provide them with structured and competitive career and skills acquisition pathways.

We are dedicated to providing a variety of training initiatives that improve our employees’ skills and knowledge, opportunities that we believe will foster growth within the employee and ultimately our business. Our commitment to training was officially recognised in July 2011, with our Company receiving the prestigious ‘Employer of the Year’ award for the Central Queensland category of the Queensland Training Awards. We were also recognised as one of three finalists in the State Finals, held in Brisbane on 2 September 2011, yet were unsuccessful in receiving the Queensland Employer of the Year award.

In May 2012, we made changes to our organisational structure, bringing about a greater focus on key objectives set out in our Strategic Plan. This process entailed changes in roles and responsibilities at the management level, with added focus on Asset Management, Factory Operations and Maintenance. The process also involved the establishment of a Cogeneration Services Business Unit, charged with the responsibility of ensuring efficiency in our operation of the Racecourse Cogeneration Plant and the use of fuels (including bagasse) within our business.

We welcomed 9 new members into our 35-year Service Club in May 2012, lifting the member tally, comprising past and present employees, to 110. Whilst we live in a competitive employment environment, it’s the highly experienced people, many of whom are members of our 35-year Service Club, who assist us to grow our business. See People on page 41 for further details.

Maintaining our focus on environmental sustainability

We maintain an Environmental Management System (EMS) that fosters a collaborative approach to environmental management across our milling operations to ensure our operations have minimal impact on the environment. Our reportable equivalent carbon dioxide (CO2-e) emissions for 2010/11 were 129,003t (2009/10: 79,992t), with the increase reflecting a rise in the use of coal in our boilers, following the wet 2010 season and the smaller crop limiting our bagasse (green waste) supply. We measure our energy consumption through various...
methods and continuously strive to improve consumption across our sites. During the year, we initiated a program targeted at growing the proportion of bagasse stored and consumed by our three mills by improving energy and bagasse transport efficiency and reducing the amount of energy generated by coal. See Environment on page 37 for further details.

**Looking ahead**

In the coming year, a concerted effort will be afforded to increasing production across our mills as we handle the estimated 5.5Mt crop in the 2012 season. However, a continued focus on achieving an improved safety performance will remain.

We are expected to sign a new Refinery Services Heads of Agreement (HOA) and Raw Sugar HOA in June 2012, with each set to provide a positive outlook for the Company.

We will look to successfully commission our new 38 megawatt Racecourse Cogeneration Plant toward the end of 2012 and strive for further energy efficiency outcomes and a reduction in coal use within our operations. We will also look to secure further funding for projects identified under our 20-year Diversification Plan, with the aim of securing a stronger future for our shareholders and contributing to the environmental sustainability of our region.

A considerable amount of planning was afforded to the integration of the Mossman Mill into our business in early 2012, as part of our acquisition of the Mill (finalised after the reporting period, in early June 2012). The integration plan will see the continuation of the Cane Supply Agreement that is in place with the Mossman growers for the next three years, and we will also offer our forward pricing option and cane development incentives, such as Secure the Future and Plant Loan Scheme, currently available to Mackay growers. Similarly, we will be taking on the employment obligations for those engaged in the cane transport and milling operations at Mossman. With the acquisition happening close to the start of the 2012 season, we will use Mossman’s six-month crushing period to further plan the integration of personnel and operating systems as appropriate. I am confident that we can offer the platform necessary to expand Mossman’s cane supply and, consequentially, increase our raw sugar production to take advantage of the demand for sugar in the Asian region.

**Acknowledgements**

I would like to thank our growers for their commitment to overcoming the challenges presented throughout the season and their support of the various cane development initiatives introduced throughout the year.

I would also like to thank the Management team and every member of our workforce for the efforts they afforded to growing our business throughout the year. Our operations have certainly demanded resilience from our employees involved in maintenance and capital works programs this year and, as we continue to embrace the various diversification opportunities available to our business, the skills and knowledge of our workforce will be fully employed.

I also thank our Board of Directors for their direction to our business. Their experience and knowledge has seen us deliver against various corporate strategic goals during the year.

Quinton Hildebrand
Chief Executive Officer
The year has delivered disappointing financial results for the Company, due to the industry still recovering from a poor 2010 season, marred by unseasonal weather.

**Income statement**

Our net loss before income tax for the year ended 31 May 2012 was $12.5 million. This represents a $13.0 million decrease in net profit from the 2011 financial year.

The 2011 season crop of 4.162 million tonnes (Mt) was down 8.6% on the 2010 season crop. This decrease in crop was partially offset by an increase in the sugar content in the cane resulting in a net 7.8% reduction in sugar production. The sugar price increased on the previous financial year to $463.20 per tonne (t) IPS sugar compared with the 2010 season price of $435.20/t IPS sugar. The net effect of the $28.00/t increase in the sugar price, offset by the lower sugar production, resulted in a decrease of $13.4 million in total sugar revenue.

Molasses production for the 2011 season decreased by 5.9% as a result of the lower crop tonnage and molasses yield compared to the 2010 season. The molasses price for the 2011 season decreased by 20.2%. The net effect was a decrease in molasses revenue of $3.5 million compared to the previous year.

Electricity sales decreased by $0.5 million on the previous year to $1.7 million, mainly due to the reduction in cane tonnages processed.

The net effect of the mentioned revenue items resulted in a decrease in gross profit of $9.7 million or 7.2% for 2012, compared to the 2011 financial year. Revenue from non-operating activities in 2012 included the profit on the sale of Tully Sugar Limited shares of $1.4 million and profit on the sale of land and property of $0.4 million.

Controllable maintenance and operating expenses for the 2012 financial year was $85.6 million compared to $87.2 million incurred in the previous year. The $1.6 million decrease was primarily due to the
The shorter 2011 crushing season compared to the previous season which was extended due to unseasonal wet weather. Administration expenses increased from $37.2 million in the 2011 financial year to $39.5 million in 2012 financial year. The $2.3 million increase was mainly due to increases in employee wage rates, insurance, recruitment and training costs.

The profit from equity accounted investments of $8.9 million represents the Company’s share of profit in the Sugar Australia and New Zealand Sugar refinery investments.

Finance costs increased by $2.0 million on the previous year as a result of increased funding requirements, interest on the Queensland Sugar Limited (QSL) crop reduction loans and increased investments in unsecured notes.

Depreciation is mainly a function of the tonnage of sugarcane crushed and accordingly reduced by $0.1 million to $8.8 million for the 2012 financial year, as a result of the reduced cane tonnages processed through the mills.

Other expenses increased by $2.0 million on the previous year to $3.9 million for the 2012 financial year. The increase was mainly due to a further $3.1 million impairment loss on Pleystowe Mill plant and equipment held-for-sale, offset by a decrease in capital working expenses of $1.0 million.

Balance sheet

Our total equity decreased by $7.1 million on the previous year to $223.8 million as at 31 May 2012. This was mainly due to the loss incurred for the year of $12.5 million, offset by an increase in reserves of $5.8 million. The reserve movements reflect an increase in the hedge reserve of $7.1 million and a decrease in the financial assets reserve of $1.2 million.

The hedge reserve states the valuation of the Company’s hedging positions as at the year-end date. It is a requirement that the sugar pricing and foreign exchange forward contracts be valued at the end of the financial year.

The financial assets reserve reflects the movement in the valuation of available-for-sale financial assets. The decrease of $1.2 million resulted due to the sale of the Tully Sugar Limited shares and the realisation of this amount in the income statement for the 2012 financial year.

Net debt increased by $34.8 million to $97.5 million, primarily to fund the Racecourse Cogeneration Project. This comprised bank loans of $79.9 million, other loans of $9.1 million, interest bearing deposits of $1.4 million and unsecured notes of $31.8 million, offset by cash of $24.7 million.

Receivables decreased by $0.7 million to $16.4 million, mainly due to seasonal timing factors associated with the sugar revenue receivables. Payables and other liabilities increased by $3.1 million to $54.6 million, primarily due to higher cane payment accruals and additional deferred grant income. Inventories decreased by $2.5 million as a result of a reduction in finished goods stock (raw sugar and molasses). Assets held-for-sale of $2.2 million consists of property, plant, equipment and inventories that are planned to be sold or scrapped as a result of the closure of Pleystowe Mill. These assets have been separated from the normal inventories and property, plant and equipment and are recognised as a current asset. Other financial assets include Sugar Terminals Limited shares of $15.9 million.

Cash flow statement

Net cash flow from operating activities increased by $10.7 million to $10.8 million, reflecting the relative timing of cane payments over the reporting period.

Capital expenditure increased by $25.4 million to $56.3 million. This includes $38.8 million on the Racecourse Cogeneration Project, with the balance being stay-in-business capital. Net proceeds of $13.0 million were received from the sale of Tully Sugar Limited shares during the year. We also invested $2.2 million into the Sugar Australia Joint Venture during the year.

Movements from financing activities were a combination of the following:

• proceeds from the issue of B class investment shares $1.2 million;
• new borrowings of $29.7 million for the cogeneration project;
• new borrowings of $7.1 million for other operations;
• a decrease in interest bearing deposits of $0.3 million, and
• an increase in Unsecured Notes of $2.4 million.

Cash on hand increased by $4.1 million to $24.7 million.

Looking ahead

In an effort to grow our business for the betterment of our shareholders, we will remain focussed on obtaining the appropriate funding to support additional business opportunities in the coming year. We will also continue the management of costs to underwrite the effective management of our operations.

Sandra Pienaar
Chief Financial Officer

Harvesting on a Mackay cane field.
Business

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Our Diversification 33
The wet weather conditions in the latter half of the 2010 crushing, along with the large percentage of standover cane, presented difficulties for both the harvesting and milling sectors throughout the 2011 season. A total of 4.2 million tonnes (Mt) of cane was crushed from a harvested area of 69,070 hectares (ha) during the 2011 season, resulting in an average yield of 60.3 tonnes per hectare (t/ha). This was 13t/ha lower than the 2010 crushing result of 73.3t/ha and the lowest record since 2000, when a yield of 55.9t/ha was achieved.

### IPS sugar yield and cane yield

The average sugar content (PRS) for the 2011 season was 13.48 units, which was 0.44 units higher than the 2010 figure of 13.04 units. The average sugar per hectare figure of 8.07 tonne (t) was a 1.76t reduction on the 2010 season of 9.83t/ha.

### Providing optimum harvest and transport operations

We operate 46 locomotives, and 8,100 cane bins across our cane transport system, with growers able to deliver their cane to one of the 500 delivery points (sidings) to access our railway network for transportation to the mills.

Similarly to the harvesting sector, our cane transport operations were stretched in delivering cane to our mills throughout the 2011 season. Low bin weights associated with the poorer crop placed additional pressure on allocations during the season. Locomotive availability was 95.7%, a 1.7% improvement on the 2010 season (94%). Brake van availability of 94.6% fell slightly on the 2010 season’s performance of 98.3%. Derailments for the 2011 season increased by 5%, with a derailment rate of 1 to 11,562 tonnes (t) hauled, compared to the 2010 figure of 1 to 12,177t hauled. The increased level of loss of gauge in sidings due to deteriorating timber sleepers is the major contributing factor to the increase of derailments within the cane transport system.
We closely monitor our rail network and conduct routine maintenance works on our railway lines and associated infrastructure during our off-season each year, yet heavy rain periods and flooding throughout the summer months continue to be the major cause of deterioration of our lines, bridges and line footings. Maintenance works throughout the year included fabrication works to Fursden Creek Bridge and remedial earth works to Constant Creek.

A new contract for the transportation of raw sugar was signed and finalised with Zarb Road Transport in February 2012. The company will be replacing their existing 12 trucks with 9 new-generation trucks with a maximum payload of 45t, compared to the existing fleet of 36t payload. The higher payload trucks will see fewer trucks on our roads, and a reduced number of round trips. The delivery of the new trucks will be a two-staged process with five new trucks to be commissioned for the 2012 crush (operating from Marian), with the remaining four trucks in time for the 2013 crush. In order to better accommodate the new trucks, modifications were carried out at Marian and Racecourse factories, including the unloading facilities. For the 2012 crush season, the Bulk Sugar Terminal is proceeding with a new 36-metre weighbridge, and modifications to the Sugar Australia weighbridge are also to be completed. Modifications at Farleigh will be made ahead of the 2013 crush.

Creating awareness about cane train safety hazards

We have a responsibility to ensure our community is aware of the dangers associated with our cane train activity during the crushing season, so each year we employ various advertising mediums to remind drivers within the Mackay and surrounding areas to remain vigilant when approaching railway crossings. The advertising also encourages parents to educate their children about the dangers associated with cane train crossings and railway networks. The campaign commences in the weeks leading up to the crush and continues throughout the season. During the crush, we also utilise two billboards located alongside the Bruce and Peak Downs Highway, targeting drivers with a message around safety at crossings. As of early 2012, we now distribute our cane train safety message to our regional schools for them to place in their newsletters, directly targeting the families within our community.
Growing the area of land under cane

Our sugar production currently comes from a cultivated area of almost 85,000 ha of which cane is harvested from approximately 72,500 ha of land in the Mackay district.

Approximately 1,000 grower shareholders currently supply us with their sugarcane, harvested from Mackay’s regional farming areas as far south as Alligator Creek (north of Sarina) to Yalbaroo (north of Calen).

The Mackay cane supply region has reduced by approximately 10,000 ha over the past 10 years. These losses are widely distributed across the region and are due to a number of causal factors. With the region’s growing population, driven by the coal mining boom, housing developments remain one of the primary influences to cane land loss. A large portion of the land has simply gone out of cane and remains underutilised due to farmers being unable to maintain the farm for various reasons. The inability to retain skilled workers to assist with farming the properties and our aging grower population also continue to play a part in the decline of cane land.

In line with our Strategic Plan and the identification of cane supply security as one of our critical success factors, a significant focus for the Company throughout the year was cane expansion, with the aim of increasing the Mackay sugarcane supply through yield improvement and increased area under cane. Specifically, our goal is to facilitate the planting of an additional 5,000 ha of cane land by 2016. We require a strong cane supply to grow our business and successfully implement the various diversification projects identified under our 20-year Diversification Plan.

A Cane Development Business Plan was approved by the Board in December 2011 and involves the use of grower support schemes, lease facilitation, the direct leasing of land by Mackay Sugar and land purchasing to achieve the cane development target. Throughout the year, we engaged with several land owners and surrounding growers to facilitate the leasing of land to assist us in reestablishing farms. This involved us identifying land and leasing opportunities and providing assistance with leasing agreements. Leasing is not common within the Mackay area (unlike many other cane growing areas) and, pleasingly, the extent of area committed to cane establishment through leases for planting in the financial year has been sizeable. In total, 983 ha of new land has been committed to cane development, and a further 297 ha of existing cane land, that has previously been producing poorly, has been leased and will give improved yields into the future.

To improve productivity, we continue to provide incentives to assist growers with planting cane. We offer growers a ‘Secure the Future’ scheme, a guaranteed, four-year pricing scheme for any new land planted to cane. This scheme has been provided to growers since 2009. Growers planting in 2012 will be provided a fixed price of $500 per tonne International Pol Scale (IPS), from 2013 to 2016, for up to 80t of cane per hectare produced from land committed to the scheme. In 2012, the scheme will assist with the planting of 485 ha. Our Plant Loan Scheme provides finance for the planting of new land or for growers planting in excess of 10% of their assigned area. The loan attracts 7.0% interest and is repayable over three seasons via the grower’s cane pay. These schemes provide funding for the new crop and the security of a fixed price which, together, provides land owners an attractive proposition for returning the land into production. As at 31 May 2012, our previous Secure the Future and Plant Loan schemes have facilitated 500 ha of new land being planted and 600 ha of existing land replanted respectively.
Engaging growers, shareholders and industry representatives

We ensure our growers and shareholders are kept informed of our current and future activities, crushing details, and business performance via regular communication measures, including:

- Company Updates (to growers, shareholders and unsecured noteholders) — detailing announcements and important business outcomes and activities;
- Text (SMS) messages and two-way radio broadcasts (to growers/harvest groups) — providing advice of harvesting matters, approximately two times per day;
- Corporate website — providing reports and general information and access to a secure ‘grower’ site containing personal farm/harvesting statistics;
- Interactive Grower Information Service — a dial-in service providing access to the latest updates on harvesting, cane payments and other general information;
- Shed Meetings (for growers and shareholders) — providing a presentation and discussion on crushing, operations and maintenance, and future activities from the Board and management. These forums, held across three venues regularly throughout the year, foster a collaborative approach to the way in which we conduct our business;
- Face-to-face meetings — enabling growers and shareholders the opportunity to either meet with our Directors, management, Grower Liaison Officer and other Cane Supply department personnel on a mill site, or have them visit them on their farm to discuss any grower/shareholder issues and concerns;
- Shareholder Briefing Meeting – a meeting typically held in April each year to review the Company’s performance;
- Annual Report – providing an in-depth review of our business performance for each year;
- Annual General Meeting – a meeting held every year to provide our shareholders with the opportunity to review our financial performance for the year, elect the Board of Directors, and discuss previous and future activities.

Throughout the year, we have also focused on improving communication in the Cane Supply Operations centre, giving particular attention to how we can best inform our harvesting groups of operational delays or unplanned stoppages.

We continue to work with various local industry stakeholders in an effort to enhance our industry partnerships and community facilities and prevent cane land from being lost to urban and industry development. We participate as a member on the Mackay Regional Council Rural Affairs Advisory Committee, collaboratively addressing various rural issues, and are also involved with the Mackay Regional Council Traffic Advisory Committee to discuss matters such as traffic flow problems, speed limits, road conditions, parking, heavy vehicle issues, school crossings and other traffic-related issues.

During the year, we were involved in negotiations with developers of a housing estate at Mirani to ensure the delivery of cane to a siding close to the development site would not be affected during harvesting. We are also actively involved with the Mackay Regional Council Plantation Timber Working Group to protect cane land from being obtained for plantation forestry.

We also work closely with Queensland Rail and the Department of Transport and Main Roads with regards to local rail infrastructure, and the development of new road easements that may impact our business and the harvesting activities of our growers. Various other stakeholder engagement activities occurred throughout the year, each relating to the common goal of improving our region’s infrastructure and services.

Supporting industry research and development

The engagement of staff and support of research and development (R&D) activities ensures our Company remains at the forefront of sugar processing and product diversification technologies.

Funding of both internal and external R&D activities continued to receive high priority during the financial year.

The development of ‘TrackSafe’, an early warning and alarm system for our cane transport network, has positioned our Company as leaders within the industry in the use of this technology throughout the year.

An initiative to trial ‘Taggle’ technologies in determining rail points positioning commenced in September 2011. These are

Recognising farming excellence

About 400 people attended Mackay Sugar’s annual Productivity Awards on 13 April 2012, with more than 30 awards presented in recognition of farming excellence within our sugarcane supply network. The event is successful in showcasing the region’s most outstanding farming practices, as award recipients exemplify the innovation and commitment that sustains our local sugar industry.

Winners (for the 2011 season) included:

- Reef Rescue Practice Adoption Award: Andrew Deguara
- In Appreciation for On-farm Research Award: Mount Catherine Co-op Ltd
- Harvesting Award – Under 30,000 tonnes Award: Peoples Pty Ltd, Binstead Brothers and Rob Gibson
- Harvesting Award – 30,000 to 50,000 tonnes Award: Dean Insch and Ned Muscat
- Harvesting Award – Over 50,000 tonnes Award: Craig Keating
- Young Grower Award: George Williams
- Sustainable Management Practices Award: John Muscat
- Best Average Producer Over Five Years Award (16.27 sugar per hectare): Kajavi Pty Ltd ATF The Kevin Lay Family Trust
- Cane Growing Excellence Award (7.13 sugar per hectare): Samari Pty Ltd

A full list of award recipients (including ‘Best Productivity’ for zones 1 to 24) is available via our website at www.mkysugar.com.au (under Cane Supply).

Recipients of the awards received a trophy and a dining or travel voucher. The evening included an address from our Chairman Andrew Cappello and guest speaker Barry Croft, a Program Leader for Biosecurity with BSES; a barbecue and refreshments; lucky-door prizes and children’s entertainment. Pictured (left to right): Chairman Andrew Cappello and Cane Growing Excellence Award recipient representatives Joshua and Michael Ferlazzo.
expected to improve the safety aspects within our cane rail network.

The Sugar Research and Development Corporation (SRDC) project into alternative clarification technologies, which commenced in July 2010, was only weeks away from concluding as at year end, yet it had already provided a clearer perspective of the technology options available to us to improve our sugar quality. The project was undertaken by our Technical group, with support of the staff from Racecourse, Farleigh and Marian mills.

We continue to promote the participation of our staff at premier sugar research forums, such as those organised by the Australian Society of Sugar Cane Technologists (ASSCT) and International Society of Sugar Cane Technologists (ISSCT). Several technical papers have been presented by our people at these forums throughout the year.

During the year, we saw a significant increase in users of our AgDat recording system (introduced in 2010) from 60 to 460. AgDat assists growers to record, report and manage their inputs and farming activities. With the continued assistance of funding through Reef Catchments (Mackay) as part of the Federal Government’s Caring for Our Country – Reef Rescue Program, the system provides three separate means of recording information into AgDat, including AgDat Remote, which allows our growers to directly enter information from a remote unit installed on farm equipment. As at 31 May 2012, 40 of our growers were utilising AgDat Remote. Approximately 435 growers are now using AgDat Web (2010: 60), which allows them to enter information via our website (25 users are AgriServ and Mackay Sugar representatives). AgDat Pro enables AgriServ staff to also record information relevant to growers’ farms, providing them with data that supports their ongoing research.

Enhancing farm productivity

We continue to provide our growers mud and mud/ash (by-products of our sugar manufacturing process), as these products are used as beneficial soil conditioners on cane fields to improve farm productivity. We worked towards improving this service throughout the year, implementing training for sub-contractor drivers with a particular focus on the consistency of application rates. Additionally, all factory mud moisture meters were recalibrated to ensure effectiveness for the 2012 season.

Looking ahead

In the coming year, we will continue our focus on cane expansion in both the Mackay and Mossman regions, pursuing opportunities that will assist us to grow the area of land under cane, improve farm productivity and broaden our diversification focus. We will work towards an improved cane haulage performance and will aim to strengthen our relationship with growers, through improved communications and services.
Our Milling

Outcomes for Year Ending 31 May 2012

- Processed a crop of 1,253,617t of cane at Farleigh Mill
- Processed a crop of 1,758,231t of cane at Marian Mill
- Processed a crop of 1,150,612t of cane at Racecourse Mill
- Restructured Maintenance Services and Capital Services departments

Targets for Year Ending 31 May 2013

- Record no Lost Time Injuries
- Achieve 245,000t of cane crushed per week
- Increase factory availability to >89%
- Continue implementation of Operational Excellence Program

The 2011 crushing season commenced at Farleigh Mill on 23 May, with Marian Mill and Racecourse Mill commencing operations on 9 June.

With the poor yielding crop, the harvesting sector struggled to cover the required area on a daily basis to meet allotments and this had an impact on factory crushing rates and cane supply shortfalls throughout the season.

Several significant factory stoppages throughout the season at each of the three factories associated with boilers and vessels resulted in many challenges for staff and extended the season length by approximately one week.

The 2011 crushing season ceased on 15 October 2011 at Marian Mill; after crushing the last five days were used to process the remaining wash-up cane in each mill area. The season saw us produce 558,180 per International Pol Scale (IPS) tonne (t) sugar (2010: 605,175t).

Optimising operational performance and plant

Farleigh Mill

Farleigh Mill processed a crop of 1,253,617 tonnes (t) of cane and achieved a nominal crushing rate of 466 tonnes per hour (tph) for the 2011 season which was 36tph lower than the 2010 season. Plant availability of 88% was 1.9% lower than the 2010 crushing season (89.9%).

The major stoppages for the year included a 57-hour shutdown to repair failed superheater tubes in No4 Boiler in early July 2011 (Week 9) and 23 hours to repair a leaking steam main from No2 Boiler in late June 2011 (Week 8). A further 19 hours were lost throughout the season due to two chokes on the dry collect dust screws on No4 Boiler.

We replaced the defective furnace and superheater tubes within No4 Boiler during the 2011/12 maintenance period to improve boiler reliability.

Targeted maintenance and capital works were carried out during the 2010/11 maintenance period, to replace the No9 Pan entrainment baffle and final molasses cooler, and upgrade the remelt tank. These works contributed to an improved performance in the process end of the factory during the 2011 season.

Recovery and molasses losses at Farleigh were the best for the group at 89.1% and 6.82% respectively.

Marian Mill

Marian Mill crushed a total of 1,758,231t of cane for the 2011 season. The nominal crushing rate of 725tph was 19tph lower than the 2010 crushing season (744tph).

The mill achieved a plant availability of 80.9%, which was 1.5% lower than the 2010 season performance of 82.4% and 10.1% below the budget figure of 91%.

The major contributing factors to the lower plant availability were associated with four significant stoppages within the boiler and steam areas, which required the factory to be shutdown to repair the failed equipment.

Two failures to the steam control valve from No1 Boiler resulted in 57 hours of factory downtime in late August 2011 (Week 12), to enable the valve to be stripped and defective components replaced. A shaft failure in the Boiler Ash Clarifier required the factory to be shut down for 48 hours in Week 12 also, to allow for a replacement section of shaft to be installed.

Leaking boiler tubes in No3 Boiler also affected crushing operations for a period of 12 hours in late June 2011 (Week 4), while repairs to tubes were undertaken.

Other major stoppages on the milling tandems included an 11-hour stoppage to replace a coupling on B6 Mill and a 14-hour stoppage to replace a failed shaft on the ’B’ Cane Elevator in late September 2011 (Week 16).

Additional maintenance and capital funding were made available during the 2011/12 maintenance period to address the identified areas which contributed to the significant lost time at Marian during the 2011 crushing season. A major focus was placed on technical support for the site, effective plant inspections and improved work quality as part of the maintenance program.

Pleasingly, during the year we saw an improvement in the mud filter stage and the ability for Marian to process higher levels of mud and eliminate the levels of...
factory lost time which was encountered during the 2010 crushing season. Targeted maintenance on the filter stage at a cost in excess of $1.2 million during the 2010/11 shutdown period delivered this improved performance.

**Racecourse Mill**

Racecourse Mill crushed a total of 1,150,612t for the season and the factory achieved a nominal factory crushing rate of 436tph which was 47tph lower than the 2010 season.

The major contributing factor to the lower crushing rate was a result of a poorer performance of the evaporator stage. Vacuum leaks and heavy scaling of the evaporator tubes were the primary cause of the restricted rate throughout the season.

The replacement of the evaporator condenser and new vacuum pumps for both evaporator sets during the 2011/12 maintenance period and a revised ongoing chemical cleaning regime will improve performance and crushing rate during the 2012 season.

Plant availability at Racecourse of 88.7% was again the highest for the group. However, it was 2.3% lower than the 2010 crushing (91%).

The major factory lost time at the mill for the 2010 season included 31 hours lost time associated with the failure of No4 Vacuum Pan vapour pipe in August (Week 10). The largest pan on the pan stage had to be by-passed for a period of 10 days, while a replacement section of pipe was fabricated and installed onto the pan.

The failure of the main sugar belt drive motor resulted in a 14-hour stop to replace the failed motor during the early weeks of the 2011 crush.

A total of 12 hours lost time also occurred in September (Week 15), due to an external trip which blacked out the factory. Management have been working closely with Ergon Energy in an attempt to improve supply reliability and eliminate future stoppages.

Milling train and mud losses at the mill were again the lowest for the group at 2.67% and 0.80% respectively.

A fire on a bagasse conveyor belt at the Racecourse Mill, in February 2012, caused considerable damage. However, importantly, due to the prompt action of employees on shift and emergency personnel, the fire was maintained and no one was injured. Resulting from hot work activities undertaken within the vicinity, the incident was investigated and recommendations provided to ensure a review of our Hot Work Procedure, the Hot Work Permit and the development of a Critical Impairment Procedure and a subsequent Fire Impairment Procedure.

Over the coming year, an Authority to Operate (ATO) system will be implemented for any employee undertaking hot work activities. The conveyor system was recommissioned in late May 2012.
**Ensuring factory efficiency**

The overall sugar recovery (measure of sugar recoverable from the cane supplied) for the 2011 season was 87.9%. This was 1.38% lower than the 2010 season figure of 89.28%.

Sugar loss to molasses was 7.52%, which was 0.34% higher than the budget of 7.18%.

Sugar loss to bagasse was 3.27%, which was 0.08% higher than the 2010 performance of 3.19%.

Losses to mud decreased to 1.22%, which was 0.19 lower than the 2010 crushing figure of 1.41%.

**Enhancing our operational performance**

In order to achieve a ‘best for business approach’, further restructuring within both the Cane Supply and Factory areas has occurred throughout the year, assisting us to develop and embed our systems and processes of maintenance and asset management. The restructure of the Maintenance Services and Capital Services departments has delivered an Asset Care portfolio which aligns well with general industry and our Operational Excellence focus in regards to Asset Care best practice.

A new Refinery Services Heads of Agreement (HOA) was negotiated during the year, with the signing expected to occur in June 2012. The five-year Refinery Services HOA with Sugar Australia involves us providing steam, electricity and general services to the Racecourse Refinery. The new agreement will afford us efficiency gains going forward and the ability to reduce our carbon tax liability.

During the year, we completed a strategic review of the Cane Supply department to determine the short, medium and long-term requirements in delivering efficiencies within this area of the business. This review identified the current maintenance
and infrastructure needs within Cane Supply and determined the requirements for possible future siding rationalisation and cane bin replacement options to deliver reduced supply chain costs. The opportunities identified will be considered as part of the structured five and 10-year business plans, with the aim of eliminating risk and improving efficiencies.

**Key capital projects**

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Description</th>
<th>Project Cost</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marian</td>
<td>Upgrade No3 Boiler</td>
<td>$178,000</td>
<td>Improved boiler performance and reduced maintenance costs</td>
</tr>
<tr>
<td>Marian</td>
<td>bagasse feeder drives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marian</td>
<td>Secondary Juice Tank</td>
<td>$532,876</td>
<td>Rebuild juice tank to ensure compliance to Australian Standard</td>
</tr>
<tr>
<td>Farleigh</td>
<td>Citec Upgrade</td>
<td>$130,000</td>
<td>Upgrade system – replace technology no longer supported</td>
</tr>
<tr>
<td>Farleigh</td>
<td>Replace 25t Overhead Mill Train Crane</td>
<td>$147,500</td>
<td>Ensure compliance to Australian Standard</td>
</tr>
<tr>
<td>Marian</td>
<td>Replace Powerhouse ASEA 3.3kV Switchboard</td>
<td>$704,000</td>
<td>Replace high-risk switchboard to ensure compliance to Australian Standard</td>
</tr>
<tr>
<td>Marian</td>
<td>B Train Shredder Turbine replacement</td>
<td>$1,500,000</td>
<td>Replace damaged turbine to reduce business risk</td>
</tr>
<tr>
<td>Racecourse</td>
<td>Upgrade Clarification Switch room - Stage 2</td>
<td>$300,000</td>
<td>Ensure compliance to Australian Standard and supportCogeneration Plant</td>
</tr>
<tr>
<td>Rail Infrastructure</td>
<td>Replace 25t Crane 6</td>
<td>$280,000</td>
<td>Reduce business risk</td>
</tr>
<tr>
<td>Rail Infrastructure</td>
<td>Replace Backhoe 4</td>
<td>$180,000</td>
<td>Reduce business risk</td>
</tr>
<tr>
<td>Rolling Stock</td>
<td>Brake van Construction</td>
<td>$170,000</td>
<td>Ongoing program to increase number of brake vans and reduce business risk</td>
</tr>
<tr>
<td>Rolling Stock</td>
<td>800 x 6T Hornguide Wheel sets</td>
<td>$980,000</td>
<td>Replacement program – improved design to reduce wheel and rail wear and reduce derailments</td>
</tr>
<tr>
<td>Corporate</td>
<td>WH&amp;S Improvement Notice for Conveyor Guarding</td>
<td>$150,000</td>
<td>Continuing program - WH&amp;S Improvement notice action</td>
</tr>
</tbody>
</table>

**Improving our operations and reducing risk**

Our ongoing commitment to improving our operations and reducing risk within the business saw a number of key capital projects approved and completed across the business during the year. Works included the upgrade of No3 Boiler and the replacement of the B Train Shredder Turbine at Marian Mill.

**Receiving awards for engineering excellence**

Our engineering excellence was officially recognised at the 2012 Australian Society of Sugar Cane Technologists (ASSCT) Conference, held in Palm Cove in early May 2012, with two of our employees taking out one of the event’s top awards. Racecourse Mill’s Maintenance Supervisor Wade Neilson (pictured in centre) and Production Superintendent Rob Attard (not pictured) were awarded the Rob Rookwood for Design Excellence Award, with the pair receiving a trophy and $500 for their technical paper regarding an innovative mud scraper design. The paper detailed the scraper design that was successfully installed on Racecourse Mill’s No3 filter during the year. Two external suppliers were also involved in the design, manufacture and installation of the scraper.

**Looking ahead**

In the year ahead, we will continue to make improvements in all areas of our operations. Our focus on Overall Equipment Effectiveness (OEE) through the Operational Excellence Program will continue to align our people’s focus on maximising production efficiencies whilst maintaining a ‘safety first’ approach to our operations.

Our aim to achieve the key targets of LTIs; 245,000t of cane crushed per week, and factory availability >89% will remain in the year ahead.
Our Marketing

Outcomes for Year Ending 31 May 2012

- 37.25% of total sugar production sold for export, with 62.75% sold to Sugar Australia
- 11% of molasses produced was exported; 70% was sold through AMT but delivered to Sucrogen Bio-ethanol, and the remaining 19% sold via Champion Liquid Feeds into domestic stock feed industry
- Grower sugar price average of $461.10 per IPS tonne
- Miller average price of $466.87 per IPS tonne

Targets for Year Ending 31 May 2013

- Grower and Miller average price >$440.00 per IPS tonne
- Enhance risk management strategies and reporting systems

Providing value to our growers

We are a leading producer of raw sugar in the Australian market, providing approximately 20% of Australia’s raw sugar. More than 1,600 predominantly family-owned-and-operated sugarcane farms supply our Mackay mills.

Revenue from the 2011 season raw sugar sales was once again derived from domestic sugar sales to the Sugar Australia Joint Venture (Sugar Australia) refinery in Mackay, and from export sales via Queensland Sugar Limited (QSL). In the 2011 season, 37.25% of our total sugar production was sold for export, whilst the remaining 62.75% was sold to Sugar Australia and refined at Racecourse Refinery.

A new Raw Sugar HOA was negotiated during the year, with the signing expected to occur in June 2012. The two-year Raw Sugar HOA will see us provide 450,000t of raw sugar each year to the Racecourse Refinery, with a fixed premium over the Intercontinental Exchange Sugar No.11 Futures.

The 2011 season saw grower sugar pricing average $461.10 per International Pol Scale (IPS) tonne (2010: $431.67), whilst the miller average pricing came to $466.87 per IPS tonne (2010: $452.10). These prices reflect all sugar sales to both domestic and export markets, the combined marketing revenues and costs created by our Marketing department, and our share of QSL’s marketing revenues and costs of operations.

During the year, Sugar Australia initiated a claim against the Company for $3.2 million for the additional costs incurred as a result of the non-supply of sugar in 2011, which resulted from the weather prematurely concluding the 2010 harvest. We are defending the claim. In October 2011, GA Thomson QC ruled against the claim and Sugar Australia appealed to the Supreme Court. In March 2012, the Supreme Court referred the matter back to GA Thomson QC for further review. Arbitration proceedings were still continuing as at 31 May 2012.

Molasses yields in the 2011 season were slightly higher than usual, primarily due to the higher than normal percentage of standover cane harvested. This resulted in a higher than anticipated molasses make. Approximately 11% of the molasses produced in the 2011 season was exported via the Mackay Bulk Sugar Terminal molasses facility by Australian Molasses Trading (AMT). An additional 70% of our molasses was sold through AMT but delivered to Sucrogen Bio-ethanol, and the remaining 19% was sold via Champion Liquid Feeds into the domestic stock feed industry. As per previous seasons, under an agreement with Sucrogen Pty Ltd, all molasses supplied to the Sucrogen Bio-ethanol distillery (located at Sarina, south of Mackay) received the AMT export price equivalent.

During the year we introduced more sophistication to our raw sugar hedging plan. These financial tools enable the opportunity to enhance our returns within a reasonable risk profile. We have also initiated a review of our systems with the objective of introducing a new platform that will give us greater reporting capability.

Pricing outcomes

The following tables outline the final outcomes of our marketing activities as they pertain to sugar and molasses:

<table>
<thead>
<tr>
<th>2011 Season</th>
<th>Grower Average Price</th>
<th>Miller Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar Price Final</td>
<td>A$461.10</td>
<td>A$466.87</td>
</tr>
<tr>
<td>(A$/IPS tonne)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Season</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Molasses Price</td>
<td>A$130.86</td>
<td>A$120.22</td>
<td>A$95.98</td>
</tr>
</tbody>
</table>
Looking ahead

The sugar market looks set to enter a period of oversupply (or surplus) of sugar, with recent high sugar prices encouraging growers to plant increased areas in several key sugar-producing origins. Expectations are that supply will exceed production of sugar globally in the 2012 season, and again in the 2013 season. Oversupply of any commodity generally results in lower prices.

As the largest producer of sugar, Brazilian crop prospects and market dynamics are likely to continue to be pivotal to global sugar prices. The growth of production in Thailand, short-term price responses in India and the European Union are likely to be market drivers in the next season.

After falling considerably during the 2011 season, international molasses markets have stabilised and look set to be more balanced in the coming season. Early indications from AMT are for a similar export price in 2012 to that achieved in the 2011 season. On the domestic front, demand could well be reduced by high amounts of fodder available to cattle farmers due to a very good summer grass growing season in 2011/2012.

Source: F.O. Licht & Rabobank September 2012
Our Refining

Outcomes for Year Ending 31 May 2012

- $8.9 million received as share of combined profit from SAJV and NZSC (2011: $8.4 million)
- $3.1 million received as share of combined distributions from SAJV and NZSC (2011: $7.7 million)

Targets for Year Ending 31 May 2013

- Sustain domestic sales volumes and seek alternative export opportunities in the Asia Pacific region
- Deliver annualised cost savings in excess of $4 million via Operational Improvement Programs (OIP)
- Complete Refined Sugars Upgrade Project at Yaraville Refinery
- Manage introduction of Carbon Tax in Australia to reduce liability and pass through costs to customers in transparent manner

Financial performance

Our share of the combined profit from the Sugar Australia Joint Venture (SAJV) and New Zealand Sugar Company (NZSC) amounted to $8.9 million (2011: $8.4 million), with the share of combined distributions $3.1 million (YEM 2011 $7.7 million). This result reflects there was no dividend declared by NZSC during the reporting period.

Managing sales and marketing

Food and Beverage Sector

Sugar Australia’s Food and Beverage volumes remained firm and in line with the prior year. The Beverage sector was affected by unseasonably cool and wet weather on the Eastern seaboard, as well as shortages of carbon dioxide used for product manufacturing. In contrast, the Confectionery sector performed well, with strong growth on the prior year. There has been further consolidation through acquisitions within the sector; in both the beverage and confectionery manufacturers, and price pressure from the retail supermarket chains is requiring companies to reduce input costs.

New Zealand achieved an increase in Food and Beverage volumes during the year, with new business and additional sales to a major customer occurring, due to the relocation of significant manufacturing from Australia to their New Zealand operations. The refinery also began producing high-quality nutraceutical sugar for a key Asian manufacturer of infant formula, which has supported volumes.

Retail

The CSR sugar brand continues to maintain a strong brand presence with a value share around 40%. This has been achieved despite the growth of private label brands as more shoppers move to supermarket brands. Despite the tough trading conditions, the retail portfolio has continued its significant contribution to the Sugar Australia result.

The Chelsea brand is a well-known icon in New Zealand and supported product sales during the reporting period despite lacklustre economic conditions in New Zealand.

Export

A record Thailand sugar crop and regional white sugar surplus, coupled with aggressive Malaysian competition
and a strong Australian dollar has made this a challenging year for Australian refined sugar exports. However, sales performance has been aided by shipments outside the Asian region, including bulk container exports to Ireland and other European Union destinations.

Bulk refined exports shipped to Singapore (utilising the MV Pioneer which loads 18,500 tonnes per sailing) were consistent with 9 shipments during the period. This sugar was discharged into a food-grade silo owned by SIS’ 88 Pte Ltd for distribution within Singapore and packaged for re-export to the Middle East.

Blend sales volumes from New Zealand were below target but above last year. The flow on effects from the Japanese tsunami and earthquake softened the expected sales off-take during the year.

Foodservice

The Foodservice channel had a strong result this year, despite a challenging economic operating environment. A focus on the independent distributors sector delivered growth in Australia’s baseline sugar volume compared with the prior year.

The retail sweeteners sector experienced growth in Australia during the year, driven by the introduction of stevia-based natural products, which have seen new consumers enter the sector.

The Equal Sweetener range has also shown positive growth in the past 12 months. Case volume has grown compared to the previous year on the back of targeted promotional activity with key foodservice customers. During the year, the Sales and Distribution Agreement for the Equal sweetener range with the Merisant Company was extended for a second five-year term. The refining businesses distribute the Equal products in both the Retail and Foodservice channels.

Stevia

The market in Australia and New Zealand continues to be slow in developing stevia offerings in finished products. Technical difficulties in taste formulation as well as general market softness has led many large- and medium-sized customers to either stay with incumbent products or not use research and development resources to undertake product development.

The lack of investment in this area can be witnessed through a low number of new launches in the market, with consumers not well versed in the benefits of a natural high intensity sweetener. This in turn creates issues in commanding a higher premium from consumers in the market.

Glucose

Year-on-year growth for glucose in Australia has been strong, with volumes doubling over the last 12 months. Margins have steadied and we continue to vigorously pursue logistics improvements and supply chain cost minimisation. Product development continues to be a focus as does product handling improvements.
Operations and maintenance

During the reporting period the SAJV recorded no Lost Time Injuries (LTIs), having only two relatively minor incidents that required medical treatment. This record was mirrored at NZSC with no LTIs, and culminated in the Auckland Refinery reaching two years LTI free in May 2012.

Following on from a poor start to 2011, caused by severe flood and cyclone weather conditions, both the SAJV and NZSC were required to source a shipment of raw sugar from Thailand and Brazil respectively throughout the year. The unknown quality of the raw sugar had a negative effect on melt volume (rate of processing raw to refined sugar) initially, but some capital investment and improved operating strategies ensured that this was overcome.

Packing volumes (the tonnage packed into retail packaging) also increased, with strong export sales supplementing domestic demand. Subsequently, the slow domestic and export demand, experienced in early 2012, impacted both melt and pack volume for the refineries.

Refined Sugars Upgrade Project

Following quality issues and time over runs, Sugar Australia terminated the original construction contract for the $56 million Refined Sugars Upgrade Project at the Yarraville Refinery during the year, appointing an internal Project Team to complete the construct. This is expected to result in improved quality, storage and food-grade handling of the sugar produced at Yarraville, delivering greater plant efficiencies and sugar export opportunities.

Looking ahead

Our share of the combined profit from the SAJV and the NZSC are expected to remain steady for the coming year, based on forecast market conditions and assuming no repeat of the weather disruptions to raw sugar supply. Our share of combined distributions for the period is expected to increase marginally on the previous period, with a dividend declared by NZSC partially offset by increased contributions to capital expenditure projects at the Yarraville Refinery.
Our Diversification

While we have seen a return to more sustainable raw sugar prices in recent years, the volatility in the raw sugar market will remain. Global sugar consumption is showing steady growth. However, global sugar manufacture is affected by weather events, energy prices that impact ethanol production, government support policies for domestic production, and trade agreements. Most importantly, our major international competitors have been encouraged to invest in renewable energy projects in countries where high energy prices can provide attractive value-adding revenue streams for sugar manufacturers.

Construction work continued on our inaugural large-scale renewable energy project throughout the year. The 38 megawatt (MW) Cogeneration Project at Racecourse Mill, when commissioned in late 2012, will see our electricity export increase seven-fold to over 200,000 MW hours per year, and supply approximately 30% of Mackay’s electricity consumption. While coal will be the initial supplementary fuel during the latter half of the non-crushing period, further energy efficiency projects are under investigation at Marian and Farleigh mills, which will potentially reduce our coal consumption to lower levels.

Outcomes for Year Ending 31 May 2012

- Continued construction of the Racecourse Cogeneration Project with completion at 89.9% as at 31 May 2012
- Completed Queensland University of Technology managed Sugarcane Biorefinery Development Project (research into cellulosic ethanol and lignin production)
- Partnered with University of Queensland managed Queensland Sustainable Aviation Fuel Initiative
- Prepared Marian No3 Boiler Energy Efficiency Project proposal

Targets for Year Ending 31 May 2013

- Finalise construction and commissioning of Racecourse Cogeneration Project in October 2012 and February 2013 respectively
- Implement dedicated energy efficiency project

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Our 20-year Diversification Plan, ‘Growing the Future’, is structured around the more efficient use of our cane resource to deliver sustainable energy-based projects. The value and potential return from these projects has been enhanced by the Australian Government’s Clean Energy Act, since its April 2012 introduction, whereby a carbon price is now attached to emitters of greenhouse gas. Bagasse-based (cane fibre) Cogeneration Projects and molasses-based biofuel projects are largely exempt from a carbon price liability, as the emissions from burning these fuels are almost equivalent to the carbon dioxide sequestered in growing the sugarcane.

Construction work continued on our inaugural large-scale renewable energy project throughout the year. The 38 megawatt (MW) Cogeneration Project at Racecourse Mill, when commissioned in late 2012, will see our electricity export increase seven-fold to over 200,000 MW hours per year, and supply approximately 30% of Mackay’s electricity consumption. While coal will be the initial supplementary fuel during the latter half of the non-crushing period, further energy efficiency projects are under investigation at Marian and Farleigh mills, which will potentially reduce our coal consumption to lower levels.

Cogeneration

Progress

The Racecourse Cogeneration Project progressed from 41.1% complete to 89.9% complete in the financial year. Progress remains ahead of schedule, and 265,742 man-hours of site work was completed with one Lost Time Injury (LTI) recorded. The budget forecast to completion remains within the original estimate of $120 million.

During the year, all civil works for the new boiler, steam turbine generator, cooling tower, demineralisation plant and export transformer were completed. The project’s civil works, erection of structural steelwork, furnace tube walls, major mechanical components, cooling tower, fans and ductwork were able to be progressed on schedule after early delivery to site. Pipework, electrical installation, insulation and cladding and refractory placement reached an advanced stage by the end of the financial year.

Ergon Energy is responsible for constructing the five-kilometre high voltage electricity connection from a 66 kilovolt switchyard on the Racecourse site to the Glenella feeder north of the Pioneer River. Ergon Energy work progressed to schedule, with the switchyard and some pole placements completed within the financial year.

Following months of planning with the Department of Environment and Resource Management and Department of Transport,
The 38 megawatt Cogeneration Plant at Racecourse Mill will supply approximately 30% of Mackay’s electricity consumption.
an application to construct an additional bagasse storage facility, adjacent to our Marian Mill, was lodged with Mackay Regional Council during the year. The facility will be used to store up to 42,000 tonnes of bagasse during the crush (May to November) and supply the bagasse to the Racecourse Cogeneration Plant during the non-crush (December to April). The facility will also have the capacity to store mill mud/ash. Prior to end of May 2012, we had gained Council approval, subject to additional design conditions and, at the end of May, had made significant progress towards addressing these conditions. We expect to complete the construction of the facility by November 2012.

Contracts
As of May 2012, the Sydney Project team had awarded 117 contracts for the supply of goods and services for the construction of the main Power Plant. Major items of plant have been designed, manufactured and shipped from many countries including Thailand, China, Korea, Japan, Netherlands, Germany, Israel, India, Vietnam and the USA. The Mackay Project team had awarded and managed 18 contracts associated with the Balance of Plant work, while also overseeing the Ergon Energy interconnection.

The Project has utilised the expertise and resources of local engineering companies for the major site construction contracts, with numerous other local contractors and consulting engineers also contributing to the project. G&S Engineering were awarded the contract to perform the Mechanical Erection and Electrical Installation of the Power Plant and Epoca Constructions the Civil Works. DGH Engineering was awarded the Balance of Plant Mechanical Construction contract, while iPower Solutions was awarded the Balance of Plant Electrical Installation contract.

Program to completion
Attention has been focused on preparing detailed commissioning plans throughout the year. Radiographic and hydrostatic pressure testing of water pressure parts was well advanced as at May 2012, and electrical energisation and testing of electrical components was scheduled to commence in July 2012. Ergon Energy is scheduled to complete the grid interconnection by early October 2012, and synchronising the generator with the grid is planned by the end of November 2012, with the export of power to the Mackay grid expected by December 2012.

Mackay Renewable Biocommodities Pilot Plant (MRBPP)

We have been a participant in the first Biorefinery Development Project, conducted by Queensland University of Technology (QUT) since the opening of the MRBPP at Racecourse Mill in July 2010. QUT researched the production of cellulosic ethanol from bagasse. During the 2012 financial year, the bioreactor was successfully commissioned and fermentable sugars and lignin were produced.

A final report has been issued by QUT which discusses technical and commercial outcomes from the project. The challenge for future research into bagasse based ethanol will be the reduction in capital costs (albeit costs can be reduced if annexed to a conventional ethanol facility), consistency of yields, and the preference for a commercial market for the lignin by-product to supplement revenue.

We have an agreement to supply services to the MRBPP, and we value the potential for co-product development at this unique facility. QUT has ongoing research projects at the Racecourse site and we will continue to review developments in the cellulosic ethanol arena.

Queensland Sustainable Aviation Fuel Initiative

The first stage of the techno-economic and life cycle study into sugar-based aviation biofuels was completed during the year. This Queensland Government sponsored research project has been managed by the University of Queensland (UQ) in

(Left to right) Senior Power Plant Manager Jan Keussink, Contract Superintendent Des Sievers, and Business Development Manager John Hodgson - the leading employees involved with the development and construction of the Racecourse Cogeneration Plant.
collaboration with 6 partners including Mackay Sugar, Boeing and Virgin Blue. In January 2012, we hosted a site tour for delegates from the US Navy (Green Fleet), Queensland Government, UQ and QUT.

We expect to sign an agreement in August 2012 to commence the second phase of this study, which will investigate a business case for biodiesel production in Mackay. Utilising US-based technology in yeast engineering and primarily funded under the Queensland Government’s Research Partnerships Program, UQ may utilise the Racecourse MRBPP to further develop ‘drop in’ biodiesel from sugar substrates.

**Boiler Efficiency Projects**

The Racecourse Cogeneration Project will provide further opportunities for energy efficiency projects at all Mackay Sugar mills. Two projects have been identified at Marian and Farleigh Mill which involve the upgrading of existing large boilers and the subsequent closure of smaller, low efficiency boilers. While improving the reliability of steam production at both sites, these projects will produce extra surplus bagasse which can be transported to Racecourse Mill to displace coal during the non-crushing period.

With our current coal usage, we were identified as one of Australia’s top 250 carbon emitters during the year, and will face a carbon liability under the Clean Energy Act. However, prior to the end of the financial year, we submitted an application for funding under the Act for energy efficiency and carbon reduction projects, for our boiler efficiency projects. Our goal is to reduce coal usage to a level where annual carbon emissions fall below the carbon liability threshold.

**Looking ahead**

The coming year will see us progress the development of the Racecourse Cogeneration Plant to commissioning and various other diversification projects.
Environment
Our Environmental Management 38

A Plover flies over a cane field.
Promoting a concerted approach to environmental management

We conduct a range of activities to ensure our operations have minimal impact on our environment.

Our Environmental Management System (EMS) fosters a collaborative approach to environmental management across our milling operations. The EMS enables us to continue to improve our environmental performance, as it provides us with a better understanding of environmental risks, incidents, complaints and changes in legislation. We are regularly improving this system to meet the international specification for environmental management ISO 14001:2004.

Our Environmental Policy, to which we must adhere, includes the following objectives:

• Comply with or surpass all applicable environmental legislation, regulations and standards to which the Company subscribes;
• Identify potential impacts and develop mitigation programs and controls which are regularly monitored and reviewed;
• Implement and maintain an Environmental Management System (EMS);
• Promote sustainability through efficient use of natural resources and energy, including reuse or recycling of waste resources where appropriate;
• Prevent pollution through adoption of practical waste and emissions-reduction practices and technologies;
• Continual improvement by establishing environmental objectives and targets and performance evaluation system with associated indicators;
• Ensure our employees and stakeholders are appropriately informed of our policies, management system and performance.

Our Environmental Policy is available to all employees through various training programs, toolbox meetings, specific work procedures and our intranet. Contractors are also required to familiarise themselves with our Policy to ensure their work procedures align with ours. The Policy is also available to the public via our website – www.mkysugar.com.au.

Outcomes for Year Ending May 2012

• Audited under National Greenhouse and Energy Reporting Act 2007, with findings to be provided in June 2012
• Audited by Department of Resources Energy and Tourism, with findings received in February 2012
• Reported one notifiable incident to Department of Environment and Resource Management (DERM), with no action taken
• Conducted boiler emission testing for particulates, with improved emission results achieved
• Recorded reportable CO2-e emissions of 129,003t (2009/10: 79,992t), due to wet weather requiring additional coal usage
• Gained approval from Mackay Regional Council and DERM to develop and operate new bagasse storage facility adjacent to Marian Mill

Targets for Year Ending May 2013

• Implement Energy Efficiency Opportunity Improvement Action Plan
• Implement Strategic Environmental Plan

Reporting against environmental regulations

Each year, we are required to report to federal and state regulators on environmental performance, energy efficiency and emissions and do so via the National Pollutant Inventory (NPI), the National Greenhouse and Energy Reporting scheme (NGER) and the Energy Efficiency Opportunities Act (EEO).

National Pollutant Inventory

The National Pollutant Inventory (NPI) is a cooperative program implemented by the federal, state and territory governments, identifying emission estimates, the source and location of the emissions. It is an internet database that provides free information to the community, government and industry on the emissions and transfers of substances to our environment. Our 2010/11 NPI report (along with our reports submitted since 1999) is available from the NPI website – www.npi.gov.au.

National Greenhouse and Energy Reporting Scheme

We are a mandatory participant under the National Greenhouse and Energy Reporting (NGER) scheme and submitted our third NGER report in October 2011. This report details our greenhouse gas emissions for the previous financial year. Reportable equivalent carbon dioxide (CO2-e) emissions for 2010/11 were 129,003 tonnes (t) (2009/10: 79,992t). The increase reflected a rise in the use of coal in our boilers, following the smaller cane crop and the consequent impact on our bagasse (green waste) supply during the non-crush period.

During early May 2012, we were audited by KPMG on behalf of the Clean Energy
Regulator, with the primary objective to provide assurance on the completeness and accuracy of our NGER data set provided for the 2010/11 reporting period. We were selected for the audit under Section 74 of the National Greenhouse and Energy Reporting Act 2007, which allows the regulator to initiate audits against registered corporations under the scheme. The audit process examined the integrity of our data and identified where additional improvement or support maybe required.

The audit report was not finalised before the end of 31 May 2012. However, the recommendations will be used to improve the completeness and reconciliation processes we undertake for future reporting periods.

Energy efficiency opportunities

The Energy Efficiency Opportunities (EEO) program is a Federal Government initiative of which we have been a mandatory participant since 2008. Our annual public reports on energy efficiency obligations under the EEO Act can be found on our website – www.mkysugar.com.au.

More than 90% of our total energy use is obtained from our milling by-product bagasse, which is used to produce electricity and process steam, and we provide any excess energy into the Mackay electricity grid via Ergon Energy. However, in the past year, bagasse supply was lower than previous years, due to the smaller cane crop. This led to an increase in coal being used as a fuel in our boilers to provide energy to the adjacent Sugar Australia Racecourse Refinery and, at times, our Racecourse Mill. We measure our energy consumption through various methods and continuously strive to improve energy consumption across our sites. During the year, we initiated a program targeted at growing the proportion of bagasse stored and consumed by our three mills by improving energy and bagasse transport efficiency and reducing the amount of energy generated by coal.

In June 2010, the Department of Resources, Energy and Tourism (DRET) undertook an audit of our EEO program at our Racecourse Mill, with the report provided to us in February 2012. The audit report identified 9 minor non-conformances across key requirements of the assessment framework. In order to ensure we achieve and maintain compliance, an action plan has been developed to address the minor non-conformances and has been accepted by the DRET.

Meeting environmental expectations

During the year we had one reportable incident to DERM relating to an uncontrolled overflow of the Marian Mill pond in July 2011. No actions were taken by DERM in regards to this incident.

During the crushing season all mills participated in two rounds of boiler emission testing for particulates. Undertaken in late June to early July 2011 and late September 2011, the results indicated some elevated results at Farleigh and Marian Mill. While elevated, the Farleigh results were an improvement on our 2010 emissions and reflect the continual improvement program in place. This program includes targeted maintenance for our No3 and No4 boilers at Farleigh, and work is underway on engineering designs to improve efficiency opportunities at Marian for the No1 and No3 boilers with the longer term aim to decommission the No2 boiler. Pending the outcomes of our 2012 emission testing, we may be required to enter into a binding agreement by way of a Transitional Environmental Program with DERM to improve our emissions by an agreed date.

No environmental notices, penalty infringement notices or prosecutions were received during the year.

Promoting sustainability

We promote the efficient use of natural resources within our business. We aim to minimise surface water and groundwater usage where possible and maximise our use of bagasse to reduce our reliance on coal during the non-crush period.

During the crush, all the mills run their boilers on bagasse to generate steam. Some bagasse is stored at each site at the end of each crush in readiness for the commencement of the following crushing season. A significant volume is also progressively transferred to the Racecourse Mill to run the boilers during the non-crush period. This assists to power the Racecourse Refinery operations for 50 weeks of the year.

During the non-crush period there is a requirement to supplement the bagasse with coal once the bagasse has been used. To reduce our reliance on coal, practices are employed to maximise bagasse generation, maximise the efficiency of each tonne of bagasse burnt, and minimise loss of bagasse quality. Whilst every effort is made to maximise efficiency, bagasse availability is largely impacted by the size of the crop and the quality of cane received.

More than 90% of our total energy use is obtained from our milling by-product bagasse.
As part of our Racecourse Cogeneration Project, we gained approval from Mackay Regional Council and DERM to develop and operate a new bagasse storage facility adjacent to our Marian Mill in early 2012. The facility will provide additional bagasse storage capacity, supplying the renewable fuel to the future Cogeneration Plant for a portion of the non-crush period. Construction on this facility will commence in the coming year and will include the provision of stormwater detention basins, bunding and fencing to reduce noise, and vegetation screens to improve the aesthetics of the amenity and minimise potential fugitive dust emissions.

Looking ahead

Over the coming year we will continue our focus on enhancing our environmental performance and will develop and implement a Strategic Environmental Plan. We will also strive to improve efficiencies in our mills and maximise the generation of bagasse to off-set the use of coal via an Energy Efficiency Opportunity Improvement Action Plan.
People

Our Employees 42
Our Health and Safety 49

First Year Fabrication Apprentice Aaron Ruddell and Fabrication Tradesperson Darrin Steindl.
Our people

As at 31 May 2012, our total workforce stood at 620 (2011: 560). Yet, during our 2011 crushing season operations (June to November), the Company employed a total workforce of 833 (2011: 820). Approximately 260 people are employed on a seasonal basis (for our crush) each year.

Our workforce breakdown, as at 31 May 2012, comprised 180 salaried personnel (2011: 170) in a variety of management, planning, procurement, information technology, human resources, accounting and administrative roles, and 380 (2011: 390) wages personnel working in a variety of trade, technical and processing roles.

We operate in a booming economy, which is increasingly driven by mining and mine service industries. This reality has created a labour market environment that is highly competitive. Therefore we continue to develop new strategies to attract and retain our workforce.

We are dedicated to providing a variety of training initiatives that improve our employees’ skills and knowledge, opportunities that we believe will foster growth within the employee and ultimately our business. We support and develop the capabilities of our workforce through the provision of apprenticeships, traineeships, post-trade studies, tertiary education assistance, ongoing training on health and safety matters and, importantly, specific job skills. We also provide professional development courses aimed at increasing personal effectiveness and career growth.

In May 2012, targeted changes were made to our organisational structure aimed at bringing about a greater focus on key objectives set out in our Strategic Plan. This process entailed changes in roles and responsibilities at the management level, with added focus on asset management and clearer lines of sight between factory operations and maintenance.

Recognising and rewarding our people

Weekly paid employees are recognised for reclassification to higher pay levels through evidence of skills held and used on the job. Three training agreements cover such employees:

- electrical and instrumentation employees;
- engineering and building trades employees;
- process employees.

These agreements are competency based and provide career paths which contain increments that enable employees to rise to higher levels of pay within the organisation in return for their use of additional skills on the job. In line with our retention strategy, a detailed review continued during the year to examine the process employees training agreement with a view to improving career path options and encouraging long-term employees to build additional skills which can in turn be used in their roles.

Weekly paid employees’ wage increases keep pace with the Consumer Price Index (CPI) through an annual increase agreed at the time the Enterprise Bargaining Agreement (EBA) is renegotiated.

Outcomes for Year Ending 31 May 2012

- Changed organisational structure to reflect evolution of Strategic Plan
- Reviewed Performance Management and Development System (PMDS) process
- Received Central Queensland Region, Queensland Training Awards ‘Large Employer of the Year’ award in September 2011
- Implemented performance-based incentive plan for wages employees

Targets for Year Ending 31 May 2013

- Complete implementation of leadership competency model
- Successfully negotiate Enterprise Bargaining Agreement
- Implement Employee Engagement Strategy and Action Plan
- Increase retention amongst skilled workforce
Additional increases over and above CPI are also available to employees through the EBA negotiation process, whereby employee representatives are afforded the opportunity to present structured business cases for self-funded business improvement ideas. These are typically in the form of productivity and/or cost saving ideas where employees can contribute to a more profitable business and share some of the fruits of that effort. Monthly paid employees are remunerated on the basis of a Hay Job Evaluation System, which is used to assess the value of their job. This in turn places their occupation in a ‘band’ on the basis of know-how, problem solving and accountability dimensions. Monthly paid employees are recognised through a Performance Management and Development System (PMDS) which aligns employees with our vision and values through formal assessments. This process also provides guidance for salary reviews, learning and development needs, and career planning.

An individual performance bonus for weekly paid employees, which recognises individual performance in accordance with our values, was successfully implemented in July 2011, with six-monthly reviews. This process was implemented as part of the last EBA negotiations and has effectively established a formal performance management process for all employees. This has now run for three cycles and supervisors have the opportunity to hold employees to account for their performance and provide additional reward to those people whose performance adds greater value to the business.

Retaining our people

We are experiencing increasing pressure to retain trades personnel and skilled operators owing to the ‘pull factor’ from the nearby, growing mining industry. Accordingly, we have had to explore specific retention initiatives to retain our skilled and experienced workforce. A mechanism for permitting additional, targeted retention payments for specific occupational groups who fit certain criteria was developed during negotiations for the current EBA (2011–13), but kept separate from the EBA so that any additional payments made to meet specific labour market pressures could be removed as these pressures eased. These criteria include difficulty in recruitment, turn-over, difficulty to source training/skills, and operational criticality. These additional, targeted retention payments have been approved for all tradespeople, with a higher allowance being made available to electrical and instrumentation trades. Locomotive Crew employees, (Drivers, Drivers’ Assistants and Loco Crew Trainers) as an occupational group, have also been recognised for the retention payment which will provide them with structured and competitive career and skills acquisition pathways.

Recognising our long-term employees

We held our annual 35-year Service Club function in May 2012, officially recognising employees celebrating their 35 years of service with the Company. This year we welcomed 9 new members into the Club, lifting the member tally, comprising past and present employees, to 110. Now in its thirteenth year, the popular event provides members the opportunity to catch up with old work mates and share tales of projects that have ultimately contributed to the success of our business.

Determining wages and conditions

Our employees have a Consultative Group responsible for monitoring the implementation and operation of the EBA and forming specific sub-committees to facilitate improvements and resolve issues. The major sub-committee of the Consultative group is the Enterprise Agreement Negotiating Team (EANT).
Providing flexible working arrangements

In order to accommodate the diverse needs of our business, we provide flexible working arrangements for our employees. These include:

• job sharing (through individual part-time employment contracts);
• tapered retirement, which allows older employees an opportunity to scale back to a part-time arrangement, facilitating their transition to full retirement, while at the same time encouraging them to take advantage of their ability to pass on their skills and knowledge to the newer members of our workforce;
• reverse seasonal employees who work the maintenance season in process roles;
• providing seasonal apprenticeship opportunities for process employees, offering them the opportunity to complete an apprenticeship of their choice in the maintenance season and then revert to their operator roles during the cane crushing season.

Offering equal employment opportunities

We seek to provide employment opportunities for all people, using the criteria of ‘best person for the job’.

Our Equal Employment Opportunity (EEO) Policy and network of Contact Officers aim to ensure our workplace is free of harassment and discrimination. Our EEO Policy incorporates legislative requirements from various acts including the Anti-Discrimination Act 1991. Furthermore, our Harassment Contact Officers receive training by the Anti-Discrimination Commission of Queensland to enhance their capabilities of handling such situations.

Encouraging personal and professional development

We are committed to enhancing the capability of our employees and provide them with world-class personal and professional training opportunities through our Apprenticeship Program, traineeships, leadership development opportunities, and our Tertiary Study Assistance.
We encourage our employees to participate in tertiary education in recognised courses and provide financial assistance towards the costs of this education.

During the year, two weekly (2011: five) and 6 monthly (2011: 11) paid employees participated in our Tertiary Development Opportunity Scheme in various areas of study, including engineering, human resources, accounting, information systems and management.

Professional development is made available to our employees through a range of selected programs, including a Leaders of Teams Program for our line managers or supervisors. This program is targeted at the first level of supervision and leadership inside our organisation and is the mandated minimum educational standard required of supervisors. Eleven people are currently completing the program (2011: 15). Topics covered in the program include health, safety and environment leadership; general communication skills; general leadership skills; specific education on our business operating systems, and self-management skills.

Training opportunities in areas such as dogging, rigging, scaffolding, forklift operations and mobile crane operations are also provided to our employees. Currently two of our employees are employed under the Training Opportunity Scheme (2011: four), with two scheduled to complete their training at the end of 2012.

Developing our female employees

For the year ending May 2012, females accounted for 20% of our entire workforce, representing a 2.24% increase from 2010. Female employee numbers typically increase during our crushing season, with 112 females appointed to positions across both the Cane Supply and Factory areas out of the 254 seasonal positions filled for the 2011 season (or 44% of seasonal positions).

Females continue to participate in our coaching and leadership skill development initiatives through our Leaders of Teams Program. In early 2012, this program included two female participants out of a total of 14 participants who commenced. Female employees are also provided with self-development and improved qualification opportunities with two out of a total of 10 female employees being granted tertiary study assistance during the year.

Training our future workforce

During the year, we again demonstrated our commitment to nurturing our future skill needs, through our 2012 apprentice intake, which saw 13 new apprentices commence their trade careers with us. This intake lifted our total number of apprentices and trainees to 50. Of these, 7 are adult apprentices, five are female and one is seasonal.

Apprenticeships are provided in the trade areas of boiler making, mechanical, electrical, instrumentation, fitting and machining, with traineeships available in drafting and business. Between June and December 2011, 9 of our apprentices graduated and commenced work as fully-qualified tradespersons.
We are committed to enhancing the capability of our employees and provide them with world-class personal and professional training opportunities.
Work experience
During the year, we hosted 40 work experience participants across various trade disciplines, including Information Technology and Drafting (2011: 60).

Keeping our employees informed
We use various mediums to ensure our employees are kept informed of our business activities; we conduct departmental Daily Management System (DMS) and toolbox meetings, and routinely distribute electronic memos from the CEO and other managers, and health and safety bulletins and alerts, all of which are also available on our internal website and via our noticeboards. Media releases are also forwarded to our employees as they are distributed to the media; this ensures our people hear of any announcements and activities prior to them hearing it via the media. Policies and other important work-related documents are made available to our employees in various locations throughout our business sites and via our internal website.

We introduced a new-look, hard-copy internal newsletter in October 2011, replacing the previous electronic format. The newsletter, printed on recycled paper, is sent to each employee’s home, enabling the whole family to find out about our current and future business activities, such as operational performance; health, safety and environmental initiatives; history facts; projects; new employees and interesting employee-related articles, and community involvement. Brain teasers and a word-find puzzle are also included to provide additional entertainment value.

Throughout the year, we progressed with the development of our Employee Engagement Strategy, with the aim of implementing this in the coming year to increase the level of employee engagement across our business. The Strategy has utilised feedback provided via the 2010 Employee Engagement Survey.

Promoting employment opportunities
Our employees were actively involved with various career and education events throughout the year, promoting the various employment opportunities within our business. These events included the Mackay and District Careers Expo and the Holy Spirit College Subject Selection Evening (careers guidance).
Going above and beyond for the community

Many of our employees assist as volunteers or participants at various community events each year, sometimes as representatives for our Company. Fundraising activities for organisations such as the Queensland Cancer Council are often held across our sites and are well supported by our employees.

Fifteen of our employees rolled up their sleeves to join forces with other local sugar industry representatives to give blood at the Sugar Industry Blood Drive in November 2011. In all, 47 blood donations were made during the inaugural drive. Also participating in the event were employees from Canegrowers Mackay, Sucrogen, AgriServ Central, Ravensdown and Macdonald Murphy.

Looking ahead

In the coming year, we aim to complete the implementation of our leadership competency model and successfully negotiate an Enterprise Bargaining Agreement. We will see the implementation of our Employee Engagement Strategy and Action Plan and our goal to increase retention amongst our skilled workforce will remain.

Vocational education and training approach gains award

Our demonstrated commitment to training saw our Human Resources team receive the prestigious ‘Employer of the Year’ award for the Central Queensland category of the Queensland Training Awards in July 2011. We were also recognised as one of three finalists in the State Finals, held in Brisbane on 2 September 2011. However were pipped at the post by Hutchinson Builders.

Approximately 18 employees and family members braved the wet and cold conditions that marred the Mackay Relay for Life on 26-27 May 2012, giving up their own time to keep the Mackay Sugar Team’s relay baton (a stick of cane, naturally) moving around the muddy track throughout the 18-hour event. The Mackay Sugar Team raised more than $3,000 for the Queensland Cancer Council, a rewarding outcome for the tremendous effort afforded by all team members.

Support to those less fortunate was provided via the Company’s Charity Christmas Gift Appeal in December 2011. Many items such as non-perishable foods, toys and books were donated to the Appeal by employees from across the sites, with them provided to local families nominated by The Salvation Army in the week leading up to Christmas.
Ensuring a safe workplace for all employees

The health and safety of our employees is paramount to our business. We remain dedicated to our mission – to be a leader in safety and environmental management, with zero harm to any person on site.

All persons, including contractors, who come to work on our sites, are required to attend a Mackay Sugar induction. This is a two-part, computer-based induction provided off site, with a practical assessment conducted on site. A site familiarisation walk-around is also carried out at the particular site at which they will be working.

Early each year, we conduct a ‘Return to Work’ Program, aimed at refocussing our employees for the year ahead. Our 2012 Return to Work Program, held in February 2012, involved an emergency management scenario being conducted by each site. The aim was to involve as many of the site employees as possible during the event and to enable all employees to inspect and work at their site during the exercise. This exercise ended with a lunch and review session for all employees at each site. The site reviews highlighted a number of opportunities for improvement. The Queensland Fire and Rescue Service (QFRS) attended all Return to Work events and provided valuable feedback and support of the Program.

We monitor our safety performance continuously, through a series of checks involving input from all sections of the workforce.

The type of workplace checks include:

- Job Observations by all levels of the business, including senior management;
- Work Order Observations carried out by planners and other office staff;
- Workplace Inspections in all areas of the business involving all employees, including administration.

A vital part of the internal framework to ensure a safe workplace is employee communication and consultation. This is largely achieved by having active Health, Safety and Environment (HSE) Committees at each mill site and within Cane Supply. The committees are made up of equal numbers of staff and employees and meet monthly to discuss workplace issues and develop initiatives to assist in maintaining a safe and healthy workplace. A separate ‘Group’ HSE Committee meets monthly to discuss issues arising from the site committees with representation from each committee. A ‘Safety Achiever of the Month’ award, recognising individuals that have displayed initiative towards safety, is decided by this committee from nominations received from various workgroups throughout our sites.

During the year, 11 Safety Achiever nominations were put forward to the Group HSE Committee by the individual committees. Of these submissions, 7 were awarded Safety Achiever of the Month.

To monitor compliance with our Drug and Alcohol Policy, we continued to conduct random drug and alcohol testing at all sites during the year, resulting in more than 100 people exposed to this testing. Our policy mandates a zero alcohol reading for all operators of plant. All staff, contractors and visitors are liable to be tested at any given time during work hours. New employees are also subject to drug and alcohol testing during our pre-employment medicals.

Striving for reduced Lost Time Injury Frequency Rate

Our safety performance is managed through our Occupational Health Safety Management System (OHSMS). We recorded a decrease in the total number of injuries in key operational areas throughout the year. However, due to a reduction in total hours worked our injury frequency rates increased slightly. We recorded 7 Lost Time Injuries (LTIs) during the year which was the same as last year’s record. The Lost Time Injury Frequency Rate (LTIFR) at year ending May 2012 was 5.36, up 0.42 from the previous year’s figure of 4.94, as a result of fewer hours worked. Our workgroups continue to achieve outstanding results. In particular, the Railway workgroup realised three years free of Lost Time Injury (LTI) in May 2012.

Outcomes for Year Ending 31 May 2012

- Lost time injury total of 7, with Lost Time Injury Frequency Rate of 5.36 (2011: 7; 4.94)
- Achieved a Safety Index of 1.00 for the year
- Reviewed Safety Management System in line with harmonisation of occupational health and safety laws

Targets for Year Ending 31 May 2013

- Maintain a Safety Index score of at least 1.00
- Continue to review Safety Management System in line with harmonisation of occupational health and safety laws
- Implement Employee Wellbeing Program
Our overall injury frequency rate ranks well within the industry even though our All Injury Frequency Rate (AIFR) for the year was 143.07, which represents an increase of 6% on last year.

Our employees are involved with Daily Management System (DMS) meetings, whereby issues and outcomes are reported against key performance indicators (KPIs) and improved processes identified to assist us in reducing injuries in our workplace.

When an injury occurs in the workplace, our HSE team and appropriately trained Return to Work Coordinators focus on ensuring the needs of the injured person are met, in conjunction with the medical practitioners, and sound rehabilitation procedures employed, encouraging an early and easy return to work.

Ensuring a high standard of safety is maintained

Safety Index
As part of our commitment to safety, we maintain a Safety Index, targeting 1.00 (100%) and, pleasingly, achieved this target as at end of May 2012. The Index is tracked and reported on a monthly basis and involves input from the entire workforce to achieve the target. Linked to performance-based incentive schemes for salaried and wages personnel, it comprises elements which are lead indicators for safety performance, such as attendance at scheduled safety training, monthly toolbox and Safety Committee meetings, completion of required Proactive Safety Initiatives (Job Observations, Workplace Inspections, etc) and incident reporting compliance.

Managing incidents
Our employees are involved in incident management on a day-to-day basis and are required to adhere to a strict process when conducting incident investigations.

Since the introduction of the new Harmonised Work Health and Safety legislation in January 2012, we have been working with Workplace Health and Safety (WH&S) Queensland on interpreting the new incident reporting requirements. The new legislation is a result of an attempt by all states and territories to implement nationally uniform work health and safety laws. The resultant changes are not overly onerous to our existing Safety Management System as our system already aligns with applicable Australian Standards. However, some changes will be required across our business to ensure
we meet legislative requirements. We have undertaken a gap analysis of our system and are reviewing new and revised Codes of Practice as they are released. Familiarisation with the new legislation and its integration into our Safety Management System involved training of designated officers, general managers and managers during the year.

In February 2012, a fire on a bagasse conveyor belt at the Racecourse Mill caused a significant amount of damage. However, quick actions by employees on shift and emergency personnel prevented its spread and no persons were injured. The fire was a result of hot work activities undertaken within the vicinity. The incident’s investigation recommendations have led to a change in the Hot Work Procedure, the Hot Work Permit and the development of a Critical Impairment Procedure and a subsequent Fire Impairment Procedure. Over the coming year an Authority to Operate (ATO) system will be implemented for any employee undertaking hot work activities.

Identifying and managing risks

We provide hazard identification and risk management training to our employees each year, with the aim of providing them with the necessary skills to successfully complete daily Job Start Risk Analysis Assessments (JSRA). The JSRA process is an essential tool which is referred to in our Safety Management Procedures and is used in conjunction with high-risk tasks that require a permit to perform, such as Confined Space, Hot Work and Working at Heights.

Reducing the spread of Influenza

Each year, our employees are encouraged to participate in a mass immunisation to reduce the spread of influenza and assist in the reduction of flu-related absenteeism. This service is provided to employees free of charge and is usually conducted at various locations across our sites prior to the commencement of the flu season.

Looking ahead

We will strive to continually improve safety across our sites and maintain our commitment to the Harmonised Work Health and Safety laws. We will review our Safety Management System and continue to aim for a Safety Index score of at least 1.00. We also look to introduce our Employee Wellbeing Program, having delayed its introduction during the 2012 financial year due to further inclusions required to be made to its structure before its implementation.
Our Community Involvement

Future tennis champions in the making take time out from their lesson at Pleystowe Mill tennis courts.
Our Community Involvement

Outcomes for Year Ending 31 May 2012

- Reviewed Sponsorships and Donations Policy and implemented structured Community Support Program
- Provided $55,550 in sponsorships and donations to Mackay region (2011: $21,000)
- Re-branded our Company
- Launched new corporate website
- Organised inaugural Classical in the Cane Fields
- Facilitated 203 tours of our Farleigh Mill (2011: 106), enabling 1,060 participants to view first-hand how we produce raw sugar (2011: 1,222)

Targets for Year Ending 31 May 2013

- Introduce quarterly Community Update publication
- Launch inaugural art competition
- Stage 2012 Classical in the Cane Fields in July 2012
- Prepare for 2013 Classical in the Cane Fields
- Review and enhance corporate website with social media applications

Maintaining a positive perception of our business within the community remains a primary focus for us each year.

Our community’s make-up has somewhat changed over previous years, with the sugar city being rebadged a mining town, due to the growth in the nearby mines and the interrelated population boom. This scenario has driven our communications focus throughout the year, with rebranding, strengthened external and internal communications and increased community support just some of the key results.

Supporting our communities

Support for various local non-profit community groups and organisations continued throughout the year, assisting them with the provision of essential community services and community events.

In an effort to increase community awareness of our business, a structured Community Support Program was implemented in July 2011, whereby our financial and in-kind support is targeted at activities within the following specific areas:

- art, music and cultural activities;
- education;
- environmental initiatives;
- health and welfare;
- community events.

During the year, we provided $55,550 in support to 30 groups and organisations throughout the Mackay region (2011: $21,000; 16). Recipients of our support included the Pioneer Valley Agricultural Show Society, Mackay Show Society (Cane Court), the Queensland Cancer Council (Relay for Life), and our five local welfare charity organisations, whereby we provided a $7,500 boost to assist them with costs associated with the various community services they each provide over the Christmas/New Year period. Donations of $1,500 were provided to Mackay’s St Vincent De Paul Society, The Salvation Army, Anglicare, Red Cross and Lifeline.

We also provide support to various events and community services through the provision of bulk bags of raw and refined sugar, via the Racecourse Refinery. About 51 groups/organisations were provided with bags of sugar throughout the year. In-kind support is also provided to community events and initiatives on occasions.

We offer the use of our tennis courts, located on the grounds of our Pleystowe Mill, to various school and sporting groups and community members at no cost. The venue is used for at least two days each week.

Throughout the year, we prepared for the introduction of our first major community event Classical in the Cane Fields, an annual concert to be held on the grounds of Mackay’s historic Greenmount Homestead in July 2012. With the aim of providing the community an event the whole family can enjoy, the concert is expected to lift our community profile, assisting us to create more awareness of our business.

Community Support Program Expenditure Year Ending May 2012
Providing tours of our milling operations

Together with Reef Forest Adventure Tours, we provide tours of our Farleigh Mill each day during the crushing season (May–November), enabling participants to view first-hand how we produce raw sugar from sugarcane. A total of 213 (2011: 106) tours were provided throughout the year, which saw 1,060 participants visit our Farleigh Mill (including 130 school students from the Mackay region).

Enhancing our corporate image through communications

We inform our community of our business activities on a regular basis, using various communication tools such as general media coverage (via media releases), community ‘pre-crush’ meetings, project information sheets, corporate website, and our Annual Report.

Mackay Sugar provides $50,000 boost to Mackay Hospital Foundation services

In May 2012, we entered into a long term partnership with the Mackay Hospital Foundation, which will see $50,000 provided to the Foundation over the next five years. The partnership will support the Mackay Hospital Foundation’s mission to enhance local health services and initiatives in our community. Specifically, we will provide $10,000 to the Mackay Hospital Foundation each year for the next five years under our Community Support Program. The first initiative delivered under the partnership was an annual ‘Cancer Awareness Day’ community event held in May 2012, at Mackay’s Caneland Shopping Centre. The event, involved three information stalls about cancer, with health promotion officers from the Mackay Health Service District providing visitors with valuable information on prevention and early detection of various cancer types, such as bowel, breast, cervical, testicular and prostate. Visitors to the Cancer Awareness Day stalls also received a personalised health check calendar, with information on cancer screening and information services available in Mackay. Additional cancer awareness initiatives will be delivered under the partnership over the coming months, with visits to our mills also planned.

During the year, we repositioned our business, taking on new corporate branding to enhance our public image and create renewed interest in our industry. With our ongoing investment into ‘green’ initiatives, such as cogeneration, we have a natural advantage over our neighbouring mining industries and have embarked on a long-term communication strategy that will assist us in promoting our ‘green’ business to prospective employees and community members. The rebranding has involved new designs for corporate stationery and various other templates, advertisements and signage. Our new sugar trucks, commissioned ahead of the 2012 crush, are an example of our branding focus throughout the year, with each of the Zarb Transport trucks displaying bold designs and messages around green projects, community and sugar production. We will also introduce further truck branding in early 2013, employing messaging around career opportunities.

We launched our new website on 13 April 2012. The site boasts a modern and user-friendly design and the most up-to-date information on our business activities relevant to growers and shareholders, associated industries and the community. The new website will contribute to our ongoing efforts to enhance the quality and availability of information to our stakeholders. Features of the site include pages on our ‘green’ projects, community involvement, education resources, cane development initiatives and links to associated industries. Importantly, the new site retains an easy-to-find ‘Grower Login’ link that enables shareholders to access information applicable to their farms, sugarcane pricing and shareholdings from the grower website. The ‘Careers’ section also contains more information than the previous site, enabling prospective employees and apprentices to find out more about working with Mackay Sugar.
As part of our responsibility to ensure our operations have minimal impact on our community, we employ a multi-channel television media campaign urging drivers within the Mackay and surrounding areas to remain vigilant when approaching railway crossings in the weeks leading up to the start of crush and during the crush each year. With consideration of the extensive rail movement activity commonly experienced during the crushing season, we believe it is important to remind community members of the safety risks associated with this area of our business. The commercial also encourages parents to educate their children about the dangers associated with cane train crossings and railway networks. The campaign commences in the weeks leading up to the crush and continues throughout the season. During the crush, we also utilise two billboards located alongside the Bruce and Peak Downs Highway, targeting drivers with a message around safety at crossings. As of early 2012, we now distribute our cane train safety message to our regional schools for them to place in their newsletters, directly targeting the families within our community.

Planning commenced for our new Community Update in May 2012, with the aim of introducing the quarterly publication in August 2012. The Update is the first dedicated community newsletter for our business and is expected to promote a stronger link with our community, providing them with details of our various operational and community activities. A history feature, capturing anecdotes of our industry’s early days, will also be a regular element of the publication, assisting us to increase community awareness around our region’s sugar heritage.

Engaging with our community

We place great importance on community engagement, particularly within the communities in which we operate our sugar mills. We stage pre-crush meetings and provide information to residents in the period leading up to the start of the crush at our mills each year, to ensure neighbouring residents are informed of our impending harvesting and milling activities. In May and December 2011, we conducted information sessions at Marian to inform the community of our proposed bagasse and mill mud storage facility, which is to be constructed adjacent to the Marian Mill during the later months of 2012. The May information session involved a presentation about the proposed location of the facility, how the facility would be constructed, and the various environmental risk mitigation measures we would put in place to ensure the facility had minimal impact on the community and met the guidelines stipulated by the Department of Environmental Resources Management (DERM). We also discussed the process we would undergo to gain Council approval for the project. The December session provided attendees with an update on the status of our application to Council and an opportunity to further discuss the facility. We conducted another information session in May 2012 to inform the community of the status of our application.

Looking ahead

We will continue to provide benefits back to the community through our Community Support Program in the next year, with a particular aim of identifying partnership opportunities that support projects or events with an ‘environmental’ theme. These partnerships will assist us in promoting our ‘green’ industry, foster community awareness of our organisation and highlight our commitment to being a good corporate citizen.

We will continue to improve our external communications, introducing a new community update and making enhancements to our corporate website. We will stage our inaugural Classical in the Cane Fields in July 2012, and will launch an annual acquisitive art competition in late 2012.
Mackay cane fields at early morning.
Corporate Governance

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Our Board of Directors

The names and profiles of the Directors in office during the financial year and until the date of this report follow.

Andrew Shane Cappello, MAICD
Chairman

Andrew has been an elected Grower Director since 2001 and has been a cane producer for 30 years. He was appointed Chairman in February 2010. Andrew is also Chairman of the Pioneer Valley Water Board and Chairman of Pioneer Valley Water Co-operative.

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

Joseph Ray Magill (Ray), BLegS FAICD
Deputy Chairman, Non-Grower Director

Ray was appointed as a Non-Grower Director in March 2006 and Deputy Chairman in February 2010. Ray is based in Brisbane and has widespread experience in finance. He is the founder and past chairman of InterFinancial Limited, a company providing corporate advisory services. As a former director of Palmer Tube Mills, Ray was responsible for its United States operations before it was taken over by Australian National Industries Limited.

Ray has wide experience in marketing agricultural products, has been involved with Goodman Fielder Limited and is a former chairman of Carrington Cotton Corporation Limited and the Peanut Company of Australia Limited (formerly Peanut Marketing Board). Ray is also Chairman of Harvest Freshcuts Pty Limited, Australia’s largest fresh-cut salad producer.

Andrew Richard Amer, BA MSc MBA FAICD
Non-Grower Director

Andrew has been a Non-Grower Director since October 2003. He has wide board level experience across Australia and Asia Pacific in the manufacturing and mining sectors and has also worked at senior management level in banking and insurance, retailing and strategic management consulting. Previous roles have included Director of Delta SBD Limited, Managing Director of Amoco Australia, and Vice-Chairman of the YAFCO BP Amoco Yizheng Chemicals joint venture in China. His other roles have included Group Manager Strategy and Marketing of Suncorp, General Manager Service Development of Myer Grace Bros and Management Consultant with Price Waterhouse Urwick.

Currently, Andrew is also Chairman of Carabella Resources Limited. He is a Member of the NSW Council, a Member of the Law Committee and a Fellow of the Australian Institute of Company Directors. He is also a Member of the Professional Conduct Tribunal of the Institute of Chartered Accountants in Australia.

Anthony Robert Bartolo (Tony), BCom DipFS FCPA GAICD JP
Grower Director

Tony is a third-generation farmer and was elected to the Board as a Grower Director in April 2010. He has been a Partner at DGL Accountants since 1999, specialising in taxation and business advice to primary producers. He was granted Fellowship of CPA Australia in 2007 and in 2012 became a Graduate of the Australian Institute of Company Directors.

Tony’s previous roles include Chairman of the CPA Mackay Committee, Board Director of the Mackay Show Association, and adviser to one of the largest cane harvesting co-operatives in the region.
Vincenzo Germanotta (Vince), DipAg
Grower Director
Vince has been an elected Grower Director since November 2004. He has been growing cane in the Mackay district for more than 35 years. He was elected as Grower Representative to Mackay Area Productivity Services Board in June 2004 and is currently a Mackay Sugar representative and Deputy Chairman of Mackay Area Productivity Services Pty Limited.

Sydney Gordon (Syd), DipFin Markets FAICD
Grower Director
Sydney has been an elected Grower Director since November 2003. He has been growing cane in the Mackay district for more than 33 years. A Fellow of the Australian Institute of Company Directors, he has business experience in financial markets and is a director of First Ocean Financial Pty Ltd, AFSL 405652, a financial services company providing advisory and investment services.

Rex Corrado Stroppiana, AdvDipAg
Grower Director
Rex has been an elected Grower Director since November 2004. He has over 25 years’ experience in the development and management of an expanding cane-growing and harvesting business. Rex is a Mackay Sugar representative on the Board of Mackay Area Productivity Services Pty Limited and holds an Advanced Diploma in Agriculture (Rural Business Management).

Maurice Clement Maughan, FCA FTIA JP (C.dec)
Non-Grower Director
Maurice became a Non-Grower Director of Mackay Sugar in June 2012. Prior to this, he was a Director of Mossman Mill, since November 2007. In 2006, after 31 years, he retired from the international accounting firm KPMG as a partner. Maurice was responsible for providing advice to a number of companies including those in the Queensland sugar industry. He has extensive business experience as a result of his time with KPMG and remains actively involved as a Director or advisor to several companies.
Quinton Hildebrand
Chief Executive Officer
Quinton’s primary focus is to create and implement development strategies that ensure the Company’s business objectives are achieved and stakeholder expectations are met. He is responsible for managing the business to achieve optimal profitability and effective use of the business’ assets and people.

Sandra Pienaar
Chief Financial Officer
Sandra is responsible for the financial and business services, pricing and marketing, information and technology, supply and procurement and business analysis departments. She undertakes all contract and major dealings with banks and financial institutions for the management of borrowings and financials and ensures all compliance matters are dealt with expeditiously and as per agreed policies and procedures to meet all legislative requirements.

Mark Gayton
General Manager Operations
Mark is responsible for the overall operational aspects of the business, including cane supply, factory operations, maintenance, capital, transport and logistics, and business improvement functions.
* As at June 2012, Mark is also responsible for the integration of the Mossman operations within Mackay Sugar.

Jean-Claude Gassin
General Manager Human Resources, Health, Safety and Environment
Jean-Claude provides strategic and operational support to drive organisational effectiveness and performance. He and his team contribute to the alignment of the Company’s strategic intent by implementing sustainable human resources, health, safety and environment initiatives aimed at enhancing organisational capability and performance.

Dave Langham
General Manager Cane Expansion, Property and Stakeholder Engagement
In the reporting period, Dave was responsible for increasing cane supply, with a commitment to establishing new area and enhancing farm productivity. He also managed our property portfolio and stakeholder engagement, ensuring we fostered and maintained strong industry partnerships with the aim of enabling us to secure the necessary resources and infrastructure required to continue to grow the business.
* David has since left Mackay Sugar and these responsibilities have been included into the General Manager, Commercial, with Peter Gill appointed to this role (effective from 13 August 2012). Peter will be responsible for leading and managing the Company’s cane expansion initiatives, property management, diversification projects from concept to commissioning stages and provide corporate legal and commercial expertise.
Our Corporate Governance Practices

The Board of Mackay Sugar Limited maintain high standards of corporate governance as part of their commitment to maximise shareholder value through promoting effective strategic planning, risk management, transparency and corporate responsibility. The Board fosters a culture that values ethical behaviour, integrity and respect.

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

Board Charter

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

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

- the composition of the Board including the appointment and retirement or removal of Directors;
- oversight of the Group including its control and accountability systems;
- where appropriate, ratifying the appointment and the removal of Senior Executives;
- reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance;
- monitoring the Chief Executive Officer’s implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and sales;
- approving and monitoring annual and half-year reports, statements as to future financial performance or changes to the policy or strategy of the Company;
- performance of investment and treasury functions;
- monitoring industry developments relevant to the Group and its business;
- developing suitable key indicators of financial performance for the Group and its business;
- having input in and granting final approval of corporate strategy and performance objectives developed by management;
- the overall corporate governance of the Group including its strategic direction and goals for management, and monitoring the achievements of these goals; and
- oversight of committees.

Board composition

The Board is currently comprised of 8 Directors, with

- five Grower Directors, including the Chairman; and
- three Non-Grower Directors

The Board must comprise of no less than 7 Directors, two of whom must be Non-Grower Directors, or more than 7 where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified.

The Directors holding office at the date of this report are on page 58, 59 and 69 of this Annual Report.

Results for cane yield were also down, averaging only 73.3t of cane per hectare compared to 74.3t in 2009.

Board appointment and retirement

The appointment and election of Grower Directors will be in accordance with Rule 15.2 of the Constitution. When a vacancy arises for a Non-Grower Director or where the Board decides a new Director is required with particular skills, the Nominations Committee must prepare a list of candidates considering what may be appropriate for the Company, the skills, expertise and experience required, and the mix of those skills, expertise and experience with those of the existing
Directors. The appointed candidate will be required to have his or her appointment confirmed by resolution of the shareholders at the first general meeting of shareholders following the appointment of the Non-Grower Director.

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

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

Board meetings
Board meetings are normally held monthly, and must occur not less than 10 times in any year. A Board meeting may be scheduled at all of the Company’s sites throughout the year and include a site visit and presentations by management to aid Directors understanding of the business.

Details of Board and Committee meetings held and attendances at those meetings are set out in the Directors’ Report on page 68.

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

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

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

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

Independent advice
Each Director may seek independent legal or other professional advice at the Company’s expense on matters arising during the course of their duties with the prior approval of the Chairman.

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

- obligation to comply with the code and the law;
- general duties of Directors;
- the business judgment rule;
- independent decision making and soundness of decisions;
- confidentiality of Board matters and other information;
- improper use of information;
- personal interests and conflicts;
- performance and review.

Trading in securities
The Board has a Code of Conduct for transactions in securities that applies to Directors and Executives of the Company. The Code sets out the legal duties relating to transactions in securities.

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

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

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

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

Board committees
The Board has established five committees to assist in the discharge of its responsibilities. These committees are:

• Audit and Financial Risk Committee;
• Finance Committee;
• Remuneration and Nominations Committee;
• Compliance Committee;
• Siding Committee.

Each committee has a charter, detailing its role, duties and membership requirements. The committee charters are reviewed annually and updated as required.

All Directors are entitled to attend meetings of the committees. Minutes of the committees are provided to all Directors in the Board papers for the next meeting of the Board and proceedings of each meeting are reported by the Chair of the committee at the next Board meeting.

Audit and Financial Risk Management Committee
The role of the Audit and Financial Risk Management Committee is to assist the Board to verify the integrity of the Company's statutory and financial reporting, the effectiveness of external and internal audit functions, the appropriateness of the internal control structure, compliance with the financial risk management systems and the application of corporate governance principals. It also manages the Company's relationship with the external auditor.

Key responsibilities are as follows:

• make recommendations to the Board on the appointment, reappointment or replacement of the external auditor;
• review and approve the External Audit Plan and audit fees;
• review and approve the Company’s accounting policies and practices and monitor compliance with accounting standards that relate to the preparation of the accounts;
• review and recommend for approval by the Board the half yearly and annual reports and Directors’ Report, and all other related reports which are required by any law, accounting standard or other regulatory body;
• review and approve the Company’s business continuity plans, with specific reference to information technology and other essential business systems;
• assist the Board in the identification and oversight of financial risk;
• monitor and review the effectiveness of the financial risk and internal control systems implemented by management;
• consider the processes applied by management to comply with the Board approved policies for commodity price risk, foreign exchange risk, liquidity risk, funding risk, credit risk and interest rate risk.

The following Directors were members of the Audit and Risk Management Committee throughout the year:

• Ray Magill, Chairman;
• Andrew Cappello, Member;
• Sydney Gordon, Member.

Finance Committee
The role of the Finance Committee is to provide corporate governance oversight to the Finance department’s function not covered by the Audit and Financial Risk Management Committee.

Key responsibilities are as follows:

• review operating and capital budgets of the Company prior to submission to the Board for approval to ensure that the expenditure proposed is justified, sufficient to support sustainable maintenance and capital projects, and all within the Company’s ability to fund these;
• monitor the overall financial position of the Company in particular the ongoing cash and net debt position;
• evaluate the risk for financial default or any other default of any of the essential service providers, customers, partners or any other institution delivering a service to the Company;
• annually review the long term financial forecast, including income statements, balance sheets and cash flow statements to ensure that these are consistent with the strategic plan;
• monitor the risk of exposure to lending rates and interest rate hedging policies and requirements;
• monitor compliance with borrowing covenants, Board policies and mandates;
• monitor the execution of pricing activities against the Board policies and mandates.

The following Directors were members of the Finance Committee throughout the year:

• Rex Stroppiana, Chairman;
• Anthony Bartolo, Member;
• Andrew Cappello, Member.

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

- review the appropriateness and relevance of the Company’s remuneration policy with reference to market comparisons;
- approve any major changes in employee benefits structures throughout the Company including superannuation, insurance, indemnities and other benefits;
- approve the design of any performance related pay schemes operated by Mackay Sugar Limited and approve the total annual payments made under such schemes;
- determine key performance indicators for the Chief Executive before the start of the Company’s financial year, against which his/her performance will be assessed;
- determine the total individual remuneration package (including bonuses and incentive payments) and termination arrangements of the Company’s Chief Executive and recommend to the Board for approval any changes prior to implementation;
- review the Board structure, size and composition and make any recommendations to the Board with regard to any changes deemed necessary;
- provide, via the Company Secretary, an annual performance evaluation of the members of the Board;
- recommend to the Board the appointment of Non-Grower Directors and the Chief Executive Officer;
- consider succession issues relating to the Chairman, Non-Grower Directors, the Chief Executive Officer, Chief Financial Officer and Company Secretary.

The following Directors were members of the Remuneration and Nominations Committee throughout the year:

- Andrew Cappello, Chairman
- Ray Magill, Member
- Rex Stroppiana, Member

**Compliance Committee**

The role of the Compliance Committee is to assist the Board in fulfilling its governance and oversight responsibilities for occupational health and safety and the environment. The Committee does not relieve the Board of its duties and responsibilities in this regard.

The scope of the Compliance Committee’s role covers the following activities:

- monitoring the Company’s compliance with health and safety and environmental policies and legislation and the impact of changes in Workplace Health and Safety legislation;
- monitoring the adequacy of the occupational health and safety and environmental management systems in complying with statutory and regulatory obligations;
- monitoring the effectiveness of the Company’s occupational health and safety systems in working towards the Company’s objective of an injury free workplace;
- monitoring the effectiveness of the Company’s environmental management systems;
- monitoring key health, safety and environmental incidents that may have strategic, business and reputational implications for the Company and its operations and reviewing appropriate mitigation strategies; and
- encouraging and supporting safety values by a committee presence at least four times per year in the workplace environment.
- Meeting with individual site Safety Committees to review any safety issues of concern at their respective sites.

The following Directors were members of the Compliance Committee throughout the year:

- Andrew Amer, Chairman
- Vince Germanotta, Member
- Sydney Gordon, Member

**Siding Committee**

The role of the Siding Committee is to provide oversight to the Cane Supply staff in reviewing requests from shareholders for cane delivery siding upgrades, alterations or extensions received in writing.

Key responsibilities are as follows:

- recommend to the Board an annual capital budget amount for approval of siding works by the Siding Committee;
- monitor capital expenditure within the Siding Committee’s budget for approved works for siding upgrades, alterations or extensions;
- approve the recommendations of Cane Supply staff for requests received in writing from growers and harvesting contractors regarding siding upgrades, alterations or extensions, and, points of delivery or delivery arrangements.

The following Directors were members of the Siding Committee throughout the year:

- Vince Germanotta, Chairman
- Anthony Bartolo, Director.
The Directors present their report and the financial statements of Mackay Sugar Limited for the year ended 31 May 2012. The Company has complied with the requirements of the Corporations Act 2001 in the presentation of this report and the associated financial statements.

**Directors’ Report**
for the year ended 31 May 2012

**Board of Directors**

The names and profiles of the Directors in office from 1 June 2011 to the date of this report follow. A record of Board Meeting attendance during the year under review is set out on page 70.

**Andrew Shane Cappello,**
MAICD, Chairman
Andrew has been an elected Grower Director since 2001 and has been a cane producer for 30 years. He was appointed Chairman in February 2010. Andrew is also Chairman of the Pioneer Valley Water Board and Chairman of Pioneer Valley Water Co-operative.

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

**Joseph Ray Magill (Ray), BLegS FAICD, Deputy Chairman, Non-Grower Director**

Ray was appointed as a Non-Grower Director in March 2006 and Deputy Chairman in February 2010. Ray is based in Brisbane and has widespread experience in finance. He is the founder and past chairman of InterFinancial Limited, a company providing corporate advisory services. As a former director of Palmer Tube Mills, Ray was responsible for its United States operations before it was taken over by Australian National Industries Limited.

Ray has wide experience in marketing agricultural products, has been involved with Goodman Fielder Limited and is a former chairman of Carrington Cotton Corporation Limited and the Peanut Company of Australia Limited (formerly Peanut Marketing Board). Ray is also Chairman of Harvest Freshcuts Pty Limited, Australia’s largest fresh-cut salad producer.

**Andrew Richard Amer, BA MSc MBA FAICD – Non-Grower Director**

Andrew has been a Non-Grower Director since October 2003. He has wide board level experience across Australia and Asia Pacific in the manufacturing and mining sectors and has also worked at senior management level in banking and insurance, retailing and strategic management consulting. Previous roles have included Director of Delta SBD Limited, Managing Director of Amoco Australia, and Vice-Chairman of the YFCO BP Amoco Yizheng Chemicals joint venture in China. His other roles have included Group Manager Strategy and Marketing of Suncorp, General Manager Service Development of Myer Grace Bros and Management Consultant with Price Waterhouse Urwick.

Currently, Andrew is also Chairman of Carabella Resources Limited. He is a Member of the NSW Council, a Member of the Law Committee and a Fellow of the Australian Institute of Company Directors. He is also a Member of the Professional Conduct Tribunal of the Institute of Chartered Accountants in Australia.
Anthony Robert Bartolo (Tony), BCom DipFS FCPA GAICD JP, Grower Director

Tony is a third-generation farmer and was elected to the Board as a Grower Director in April 2010. He has been a Partner at DGL Accountants since 1999, specialising in taxation and business advice to primary producers. He was granted Fellowship of CPA Australia in 2007 and in 2012 became a Graduate of the Australian Institute of Company Directors.

Tony’s previous roles include Chairman of the CPA Mackay Committee, Board Director of the Mackay Show Association, and adviser to one of the largest cane harvesting co-operatives in the region.

Vincenzo Germanotta (Vince), DipAg, Grower Director

Vince has been an elected Grower Director since November 2004. He has been growing cane in the Mackay district for more than 35 years. He was elected as Grower Representative to Mackay Area Productivity Services Board in June 2004 and is currently a Mackay Sugar representative and Deputy Chairman of Mackay Area Productivity Services Pty Limited.

Sydney Gordon (Syd), DipFin Markets FAICD, Grower Director

Syd has been an elected Grower Director since November 2003. He has been growing cane in the Mackay district for more than 33 years. A Fellow of the Australian Institute of Company Directors, he has business experience in financial markets and provides licensed advisory and investment services across a range of asset classes.

Rex Corrado Stroppiana, AdvDipAg, Grower Director

Rex has been an elected Grower Director since November 2004. He has over 25 years’ experience in the development and management of an expanding cane-growing and harvesting business. Rex is a Mackay Sugar representative on the Board of Mackay Area Productivity Services Pty Limited and holds an Advanced Diploma in Agriculture (Rural Business Management).

Maurice Clement Maughan, FCA FTIA JP (C.dec), Non-Grower Director

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

Company Secretary

Donna Margaret Rasmussen

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

Board meeting attendance 2011-2012

Attendances by each Director at Directors’ meetings and Board committee meetings were as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Regular Meetings</th>
<th>Special Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. S. Cappello</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>J. R. Magill</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>A. R. Amer</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>A. R. Bartolo</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>V. Germanotta</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>S. Gordon</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>R. C. Stroppiana</td>
<td>11</td>
<td>16</td>
</tr>
</tbody>
</table>

Directors’ committee meetings

<table>
<thead>
<tr>
<th>Director</th>
<th>Finance Committee</th>
<th>Audit and Financial Risk Management Committee</th>
<th>Compliance Committee</th>
<th>Remuneration and Nominations Committee</th>
<th>Siding Committee*</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. S. Cappello</td>
<td>9</td>
<td>3</td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>J. R. Magill</td>
<td>3</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>A. R. Amer</td>
<td></td>
<td></td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>A. R. Bartolo</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V. Germanotta</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>S. Gordon</td>
<td>3</td>
<td></td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>R. C. Stroppiana</td>
<td>9</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

*Siding Committee is not a statutory committee

Principal activities

Principal activities of the Company are:

(a) to acquire, transport and process sugarcane to produce raw sugar products and by-products and to transport, store, market, price and distribute those products and by-products;

(b) to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and

(c) to produce, market and distribute electricity and other value-added commodities through the use of products and by-products arising from the activities in (a) and/or (b) above.

There was no significant change in the nature of the Company’s principal activities during the financial period.
Review of operations

Information on the operational performance of the Company during the year is discussed in Business on pages 18 to 29.

Operating result

The 2011 season’s production was down on the previous season, reflecting a second consecutive year of lower than expected production levels due to bad weather and poor growing conditions. Crushing commenced on 23 May 2011, and due to the small crop, was completed by 15 October 2011. The 2011 season’s crop was down 8.6% on the previous season’s crop at 4.162 million tonnes (2010: 4.556 million tonnes). Average sugar content (PRS) increased by 3.4% to 13.48 (2010: 13.04). The result being the production of 558,180 tonnes IPS sugar (2010: 605,175 tonnes).

The average sugar price for the current financial year was $463.20 per tonne IPS sugar. This was an increase of $28.00 per tonne on the previous year’s sugar price of $435.20. Operating revenue decreased by 5.8% to $297.0 million (2011: $315.2 million). The wet weather experienced during the previous crushing season continued into the 2011 season growing period and resulted in a poor crop and decreased revenue. These were the main reasons for the decrease in profit of $13.0 million to a loss of $12.5 million.

Refer to the Chief Financial Officer’s Review on pages 16 to 17 and the Financial Statements on pages 80 to 91 for further information.

Health, safety and environment

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

The Company is subject to a range of environmental legislation in Australia. Through its Environmental Policy, the Company plans and performs activities so that adverse effects on the environment are avoided or kept as low as reasonably practicable.

Information on the Company’s compliance with environmental legislation is contained in the Environment section on pages 37 to 40.

Equal employment opportunities

Our recruitment and induction policies are continually reviewed to ensure compliance with governing legislation in the area of equal employment opportunity. The Company continues to achieve compliance with the requirements of the Equal Opportunity for Women in the Workplace Agency (EOWA). As at 31 May 2012, women accounted for 20.29% (2011: 18.05%) of the general workforce. In addition, we offer equal opportunity for promotion and training in the workplace and make selections based on ‘the best person for the job’.

Dividends paid or recommended

Dividends paid or declared for payment during the financial period were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8% fully franked dividend on paid B class investment shares paid on 10 June 2011 as declared in last year’s annual report</td>
<td>$141,851.78</td>
</tr>
<tr>
<td>8% fully franked dividend on paid B class investment shares declared on 30 November 2011 and paid on 14 December 2011</td>
<td>$176,929.13</td>
</tr>
<tr>
<td>8% fully franked dividend was declared on paid B class investment shares on 31 May 2012 and paid on 14 June 2012</td>
<td>$190,571.50</td>
</tr>
<tr>
<td>Total dividends paid during the financial period ended 31 May 2012</td>
<td>$318,780.91</td>
</tr>
<tr>
<td>Total dividends declared during the financial period ended 31 May 2012</td>
<td>$367,500.63</td>
</tr>
</tbody>
</table>

Options

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

The following significant changes in the state of affairs of the entity occurred during the financial period:

In May 2012, the Company announced that it had entered into an agreement with Mossman Central Mill Co. Ltd to acquire its raw sugar milling and related assets for $25.3 million. The acquisition will enhance the Company’s operations by contributing to the growth of its core business and providing additional cane expansion opportunities. The acquisition was successfully completed on 4 June 2012. Further information in relation to this acquisition is included in the following section of this report.

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

Events after the reporting period end date

On 4 June 2012, the Company successfully acquired the raw sugar milling assets of Mossman Central Mill Co. Ltd. The net assets of $25.3 million were purchased through the issue of 6,926,742 investment shares in Mackay Sugar Limited to the value of $11.9 million and the payment of loans and other liabilities of $13.4 million. This was funded by the drawdown of $14.2 million through an Acquisition Term Debt Facility established with NAB/Rabo. The acquisition is not included in the financial accounts for the period ended 31 May 2012. The details of the financial transactions likely to be included in the next financial year’s accounts (31 May 2013) are included in note 32: Acquisition of raw sugar milling operation.

Mackay Sugar will incur direct carbon emission liabilities under the Clean Energy Act beginning 1 July 2012, resulting from its operations at Racecourse Mill and its 25% shareholding in Sugar Australia’s Yarraville Refinery. Both sites emit more than the 25,000 tonnes of CO2 equivalent (tCO2e) liability threshold, whereby a permit acquisition of $23.00 per tCO2e will be necessary for 12 months, ending 30 June 2013. Racecourse Mill’s liability will be approximately $1.7 million per annum due to coal firing to supply energy to the Racecourse Refinery during the non-crush, and a commercial arrangement is in place to share this cost between Sugar Australia and Mackay Sugar on an energy consumption basis. As a Joint Venture partner in Sugar Australia, Mackay Sugar also has a 25% liability for Yarraville Refinery’s carbon liability from gas firing, which is expected to total $1.2 million per annum (MSL share: $300,000).

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

Future developments

The Board continues to explore ideas and projects to advance the Company. Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as until any such project becomes a firm commercial proposal, untimely and early disclosure of such information is likely to result in unreasonable prejudice to the Company.

Remuneration Report for year ended 31 May 2012

Key management personnel are those individuals, including Directors who have authority and responsibility for the planning, directing and controlling of the activities of the Company (as per AASB 124:Related Party Disclosures).

Executives are defined to include the Directors of the Company, the Company Secretary and senior managers who make, or participate in making, decisions that affect the whole, or a substantial part of the business or have the capacity to affect significantly the entity’s financial standing (as per section 9 of the Corporations Act 2001).

All references to key management personnel include Executives.

Remuneration Policy

The Board’s policy to remunerate non-executive Directors is based on market rates for time, commitment and responsibilities. The level of payments to the non-executive Directors is reviewed annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting.
The objective of Mackay Sugar’s remuneration structure is to attract, retain and reward key management personnel who contribute positively to the success and growth of the business. Mackay Sugar is committed to providing equitable and competitive remuneration to support this objective.

The Company’s salary program is designed to reinforce the ‘pay for performance’ philosophy, based on three key principles:

**Externally competitive**
- Mackay Sugar’s total remuneration needs to be competitive with the market to attract and retain well-qualified and capable personnel who will contribute to the achievement of the business’ objectives: independent salary surveys are periodically considered to compare Mackay Sugar’s salary levels to those offered by other companies for similar positions.

**Internal equity**
- Mackay Sugar continually strives for consistency in the way salaries are administered and positions are classified: a salary range is provided for each position that reflects its value relative to other positions in the Company.

**Performance driven**
- Mackay Sugar believes that an individual’s performance and overall contribution should determine her/his salary and career advancement in the Company. Mackay Sugar has established a salary system that recognises and rewards an individual’s effort and performance.

The Board’s policy for determining the nature and amount of remuneration for key management personnel is based on the concept of total reward (base pay plus benefits). Total reward reflects the level of job responsibilities, expertise and performance. Base pay is the most important element of an employee’s total reward and represents the cash remuneration paid on a monthly basis. In addition to basic benefits such as superannuation, other non-cash benefits such as the use of Company vehicles and housing are also offered.

The performance of the Chief Executive Officer is assessed by the Board through the application of the Company’s Performance Management and Development System (PMDS). The performance of other key management personnel is assessed by the Chief Executive Officer in the same manner. This system, in addition to other factors, is used in determining annual adjustments to base pay. The Board may, however, exercise its discretion in relation to approving other incentives or bonuses and may make changes to the Remuneration and Nomination Committee’s recommendations. Any changes must be justified by reference to various performance criteria as discussed below.

A superannuation guarantee contribution of 9% is made on behalf of key management personnel, as stipulated by law. There are no other retirement benefits. Upon retirement, key management personnel are paid all employee-benefit entitlements accrued to the date of retirement.

All remuneration paid to key management personnel is valued at the cost to the Company and immediately expensed.

**Performance-based remuneration**

Many factors are involved in determining the level of remuneration. Apart from a variety of factors such as budget, promotion history, position in salary range and market skill-demand, an individual’s performance is a critical component in determining any salary adjustments.

The PMDS reflects Mackay Sugar’s management philosophy and is the tool used to communicate performance expectations and to assess performance outcomes.
The three main components of the PMDS are:

- adherence to or display of behavioural competencies (Company values)
- delivery of key performance indicators (KPIs), which are aligned to the Company’s strategic plan and critical success factors
- progress in respect to skills development plans.

Individual performance on these components is assessed annually, with budgeted salary adjustments and incentive payments being awarded depending upon the achievement against the established goals.

**Relationship between remuneration policy and Company performance**

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and Executives. Two steps are involved in achieving this relationship, the first being an annual salary adjustment based on performance and the second being a performance based incentive plan based on the PMDS assessment applicable to all salaried employees.

The Board considered that the current PMDS has been effective in determining salary adjustments. A provision was made for a 3% average salary adjustment. The following table shows the revenue from operating activities, profits and retained profits for the last five periods.

<table>
<thead>
<tr>
<th></th>
<th>2008 $m</th>
<th>2009 $m</th>
<th>2010 $m</th>
<th>2011 $m</th>
<th>2012 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operating activities</td>
<td>313.9</td>
<td>299.7</td>
<td>400.8</td>
<td>315.2</td>
<td>297.0</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>5.5</td>
<td>6.3</td>
<td>44.3</td>
<td>0.5</td>
<td>-12.5</td>
</tr>
<tr>
<td>Retained profits</td>
<td>193.2</td>
<td>199.5</td>
<td>243.7</td>
<td>244.0</td>
<td>231.1</td>
</tr>
</tbody>
</table>

**Performance conditions linked to remuneration**

Mackay Sugar has a staff performance incentive plan. This is in the form of a cash incentive based on the profitability of the business and the individual’s contribution to the Company’s goals as assessed in the PMDS. To qualify for the bonus, the individual is required to be employed in the Company at the end of the assessment period.

The performance related proportions of the remuneration are included in the table below. The objective of the reward schemes is to both reinforce the short and long-term goals of the Company and to provide a common interest between management and shareholders. There has been no change to the terms of the bonuses since grant date.

As the Company did not achieve its profitability targets for the 2012 financial year, no payments were made or provided for under the incentive plan.
Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial period, key management personnel of the Company and if different, the five Executives receiving the highest remuneration.

### Employment details of members of key management personnel and other Executives

<table>
<thead>
<tr>
<th>Director/Executive name</th>
<th>Position held as at 31 May 2012 and any change during the period</th>
<th>Contract details (duration &amp; termination)</th>
<th>Proportions of elements of remuneration related to performance Non-salary cash-based incentives (%)</th>
<th>Proportions of elements of remuneration not related to performance Fixed salary/fees other benefits (%)</th>
<th>Total remuneration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr A S Cappello</td>
<td>Chairman (non-executive) Director</td>
<td>3 year term from 1 December 2010</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr J R Magill</td>
<td>Director (non-executive)</td>
<td>No fixed term. Independent Director. Appointed 1 March 2006</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr A R Amer</td>
<td>Director (non-executive)</td>
<td>No fixed term. Independent Director. Appointed 22 Oct 2003</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr A R Bartolo</td>
<td>Director (non-executive)</td>
<td>3 year term from 1 December 2011</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr V Germanotta</td>
<td>Director (non-executive)</td>
<td>3 year term from 1 December 2011</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr S Gordon</td>
<td>Director (non-executive)</td>
<td>3 year term from 26 November 2009</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Mr R C Stroppiana</td>
<td>Director (non-executive)</td>
<td>3 year term from 1 December 2010</td>
<td>0</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr O L Hildebrand</td>
<td>Chief Executive Officer</td>
<td>No fixed term. 6 months notice required to terminate. 12 months payment if termination results from redundancy.</td>
<td>31</td>
<td>69</td>
<td>100</td>
</tr>
<tr>
<td>Mrs S Pienaar</td>
<td>Chief Financial Officer</td>
<td>No fixed term. 3 months notice required to terminate. 12 months payment if termination results from redundancy.</td>
<td>23</td>
<td>77</td>
<td>100</td>
</tr>
<tr>
<td>Mr J-C Gassin</td>
<td>General Manager, HR and HS&amp;E</td>
<td>No fixed term. 3 months notice required to terminate. 12 months payment if termination results from redundancy.</td>
<td>23</td>
<td>77</td>
<td>100</td>
</tr>
<tr>
<td>Mr M L Gayton</td>
<td>General Manager Operations</td>
<td>No fixed term. 3 months notice required to terminate. 12 months payment if termination results from redundancy.</td>
<td>23</td>
<td>77</td>
<td>100</td>
</tr>
<tr>
<td>Mr D A Langham</td>
<td>General Manager Property and Stakeholder Engagement</td>
<td>No fixed term. 3 months notice required to terminate. 12 months payment if termination results from redundancy.</td>
<td>23</td>
<td>77</td>
<td>100</td>
</tr>
</tbody>
</table>

The terms and conditions of employment for key management personnel are formalised in contracts of employment. Non-executive Directors are not subject to similar contracts.
Remuneration details for the year ended 31 May 2012

The following table reflects the components of the remuneration for each of the key management personnel and, if different, the five Executives receiving the highest remuneration:

Table of benefits and payments for the period ended 31 May 2012

<table>
<thead>
<tr>
<th>Director/Executive name</th>
<th>Short-term benefits</th>
<th>Long-term benefits</th>
<th>Total $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salary &amp; fees (excludes leave paid)</td>
<td>Superannuation Contributions (Employer)</td>
<td>Profit share and bonuses</td>
</tr>
<tr>
<td>Directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr A S Cappello</td>
<td>87,064</td>
<td>7,836</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>79,495</td>
<td>7,155</td>
<td>-</td>
</tr>
<tr>
<td>Mr J R Magill #</td>
<td>100,780</td>
<td>6,370</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>126,810</td>
<td>5,923</td>
<td>-</td>
</tr>
<tr>
<td>Mr A R Amer</td>
<td>61,239</td>
<td>5,511</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>55,887</td>
<td>5,030</td>
<td>-</td>
</tr>
<tr>
<td>Mr A R Bartolo</td>
<td>48,532</td>
<td>4,368</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>40,581</td>
<td>3,852</td>
<td>-</td>
</tr>
<tr>
<td>Mr V Germanotta</td>
<td>52,202</td>
<td>4,698</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>44,251</td>
<td>3,983</td>
<td>-</td>
</tr>
<tr>
<td>Mr S Gordon</td>
<td>48,532</td>
<td>4,368</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>40,581</td>
<td>3,852</td>
<td>-</td>
</tr>
<tr>
<td>Mr R C Stroppiana</td>
<td>52,202</td>
<td>4,698</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>41,193</td>
<td>3,707</td>
<td>-</td>
</tr>
<tr>
<td>Mr C E Westcott</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Q L Hildebrand</td>
<td>484,985</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>452,101</td>
<td>24,950</td>
<td>-</td>
</tr>
<tr>
<td>Mrs S Pienaar</td>
<td>249,121</td>
<td>23,599</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>223,903</td>
<td>24,289</td>
<td>-</td>
</tr>
<tr>
<td>Mr J-C Gassin</td>
<td>221,025</td>
<td>21,738</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>207,245</td>
<td>22,684</td>
<td>-</td>
</tr>
<tr>
<td>Mr M L Gayton</td>
<td>174,560</td>
<td>28,930</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>159,310</td>
<td>28,372</td>
<td>-</td>
</tr>
<tr>
<td>Mr D A Langham</td>
<td>153,809</td>
<td>24,376</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>163,555</td>
<td>23,685</td>
<td>-</td>
</tr>
<tr>
<td>Total key management personnel</td>
<td>1,734,050</td>
<td>161,492</td>
<td>-</td>
</tr>
<tr>
<td>2011</td>
<td>1,634,913</td>
<td>157,081</td>
<td>-</td>
</tr>
</tbody>
</table>

- Salary and fees include gross salaries and Directors fees. Excludes any annual or long service leave paid.
- Non-monetary benefits are all reportable FBT benefits including housing, motor vehicles and electricity.
# Consultancy fees of $30,000 (2011: $61,000), for specialist financial advice regarding the debt funding of the Cogeneration Project, have been included.
*LSL – Long service leave *AL – Annual leave
Post-employment benefits

There were no post-employment benefits paid to key management personnel during the period.

Pre-employment payments

No payments were made prior to the appointment of an individual as consideration for agreeing to assume a position at Mackay Sugar.

Securities received that are not performance related

No key management personnel are entitled to receive securities as part of their remuneration package whether related to performance or not.

Cash bonuses and performance-related bonuses

The terms and conditions relating to bonuses granted as remuneration during the period to key management personnel and, if different, the five Executives receiving the highest remuneration during the period are as follows:

Bonus details of members of key management personnel and other Executives

<table>
<thead>
<tr>
<th>Management</th>
<th>Remuneration type</th>
<th>Reason for grant (note a)</th>
<th>Percentage vested/paid during year %</th>
<th>Percentage forfeited during year %</th>
<th>Expiry date for vesting of payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key management personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr Q L Hildebrand</td>
<td>Cash</td>
<td>(a)</td>
<td>0</td>
<td>100</td>
<td>31/5/2012</td>
</tr>
<tr>
<td>Mrs S Pienaar</td>
<td>Cash</td>
<td>(a)</td>
<td>0</td>
<td>100</td>
<td>31/5/2012</td>
</tr>
<tr>
<td>Mr J-C Gassin</td>
<td>Cash</td>
<td>(a)</td>
<td>0</td>
<td>100</td>
<td>31/5/2012</td>
</tr>
<tr>
<td>Mr M L Gayton</td>
<td>Cash</td>
<td>(a)</td>
<td>0</td>
<td>100</td>
<td>31/5/2012</td>
</tr>
<tr>
<td>Mr D A Langham</td>
<td>Cash</td>
<td>(a)</td>
<td>0</td>
<td>100</td>
<td>31/5/2012</td>
</tr>
</tbody>
</table>

Note (a) For the 2012 financial year no payments were made under the incentive plan owing to the non-achievement of profitability targets.

Options and rights granted

No key management personnel are entitled to receive options or rights as part of their remuneration package.

Proceedings on behalf of the Company

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

Indemnification of Officers

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

The Company has applied the relief available to it in Australian Securities Investment Class Order 98/100 and, accordingly, amounts in this report and associated financial statements have been rounded to the nearest thousand dollars where appropriate.

Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 79.

This report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Dated: 24 August 2012

AS Cappello
Chairman

JR Magill
Deputy Chairman
Auditor’s Independence Declaration

Under section 307c of the Corporations Act 2001
To the Directors of Mackay Sugar Limited:

I declare that, to the best of my knowledge and belief, during the year ended 31 May 2012, there have been:

1. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

2. No contraventions of any applicable code of professional conduct in relation to the audit.

BENNETT PARTNERS
Chartered Accountants

DARRYL CAMILLERI
Partner

Dated: 30 August 2012
At: First Floor
122 Wood Street
Mackay QLD 4740
Concise Financial Report
for the year ended 31 May 2012

Information on the concise financial report

The concise financial report is an extract from the full financial report for the year ended 31 May 2012. The financial statements and disclosures in the concise financial report have been derived from the 2012 financial report of Mackay Sugar.

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

A discussion and analysis of the financial statements has been included in the Chief Financial Officer's report. This has been provided to assist shareholders in understanding the concise financial report. The information contained in this discussion and analysis has been derived from Mackay Sugar's full 2012 financial report.
## Income Statement
for the year ended 31 May 2012

<table>
<thead>
<tr>
<th>Note</th>
<th>May 2012 $’000</th>
<th>May 2011 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>2(a)</td>
<td>296 997</td>
</tr>
<tr>
<td>Finance revenue</td>
<td>2(b)</td>
<td>880</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in inventories of finished goods</td>
<td></td>
<td>(2 465)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td></td>
<td>(169 742)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from non-operating activities</td>
<td>2(c)</td>
<td>1 748</td>
</tr>
<tr>
<td>Maintenance expenses</td>
<td></td>
<td>(39 670)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td>(45 924)</td>
</tr>
<tr>
<td>Administration expenses</td>
<td></td>
<td>(39 548)</td>
</tr>
<tr>
<td>Distribution and marketing expenses</td>
<td></td>
<td>(3 764)</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>(8 847)</td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>(7 197)</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td>(3 929)</td>
</tr>
<tr>
<td>Share of profits of associate and joint venture</td>
<td></td>
<td>8 941</td>
</tr>
<tr>
<td><strong>(Loss)/profit before income tax</strong></td>
<td></td>
<td>(12 520)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>(Loss)/profit for the period</strong></td>
<td></td>
<td>(12 520)</td>
</tr>
<tr>
<td><strong>Profit attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders of the Company</td>
<td></td>
<td>(12 520)</td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
Statement of Comprehensive Income  
for the year ended 31 May 2012

<table>
<thead>
<tr>
<th>(Loss)/profit for the period</th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Loss)/profit for the period</td>
<td>(12 520)</td>
<td>502</td>
</tr>
</tbody>
</table>

Other comprehensive income or loss

<table>
<thead>
<tr>
<th>Description</th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>(224)</td>
<td>(15)</td>
</tr>
<tr>
<td>Gain on sale of financial assets transferred to income statement</td>
<td>(1 191)</td>
<td>-</td>
</tr>
<tr>
<td>Gain on remeasurement of financial assets</td>
<td>-</td>
<td>1 191</td>
</tr>
<tr>
<td>Fair value movements on cash flow hedges</td>
<td>8 232</td>
<td>(34 160)</td>
</tr>
<tr>
<td>Gain/(loss) on translation of foreign associated company</td>
<td>119</td>
<td>(600)</td>
</tr>
<tr>
<td>Share of other comprehensive loss of associated company</td>
<td>(880)</td>
<td>(422)</td>
</tr>
<tr>
<td>Share of other comprehensive (loss)/income of the joint venture</td>
<td>(275)</td>
<td>5 725</td>
</tr>
</tbody>
</table>

Other comprehensive income/(loss) for the period

<table>
<thead>
<tr>
<th>Description</th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax expense relating to components of other comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income/(loss) for the period</td>
<td>5 781</td>
<td>(28 281)</td>
</tr>
</tbody>
</table>

Total comprehensive loss for the period

<table>
<thead>
<tr>
<th>Description</th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total comprehensive loss</td>
<td>(6 739)</td>
<td>(27 779)</td>
</tr>
</tbody>
</table>

Total comprehensive loss attributable to:

<table>
<thead>
<tr>
<th>Description</th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders of the Company</td>
<td>(6 739)</td>
<td>(27 779)</td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
## Statement of Financial Position

**as at 31 May 2012**

<table>
<thead>
<tr>
<th></th>
<th>May 2012 $'000</th>
<th>May 2011 $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>24 746</td>
<td>20 601</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>16 385</td>
<td>17 049</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>824</td>
<td>21 046</td>
</tr>
<tr>
<td>Inventories</td>
<td>10 426</td>
<td>12 899</td>
</tr>
<tr>
<td>Assets held-for-sale</td>
<td>2 177</td>
<td>6 331</td>
</tr>
<tr>
<td>Other assets</td>
<td>1 646</td>
<td>10 090</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>56 204</strong></td>
<td><strong>88 016</strong></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>15 885</td>
<td>16 116</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>97 997</td>
<td>93 160</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>262 575</td>
<td>214 863</td>
</tr>
<tr>
<td>Investment properties</td>
<td>2 106</td>
<td>2 144</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>378 563</strong></td>
<td><strong>326 283</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>434 767</strong></td>
<td><strong>414 299</strong></td>
</tr>
</tbody>
</table>

|                      |                |                |
| **Liabilities**      |                |                |
| **Current liabilities** |            |                |
| Trade and other payables | 43 481         | 42 266         |
| Interest bearing liabilities | 67 752         | 67 839         |
| Other liabilities    | 233            | 155            |
| Other financial liabilities | 6 549          | 16 530         |
| Employee benefits    | 4 131          | 3 993          |
| **Total current liabilities** | **122 146** | **130 783**   |
| **Non-current liabilities** |            |                |
| Interest bearing liabilities | 54 432         | 15 497         |
| Other liabilities    | 10 903         | 9 137          |
| Other financial liabilities | 14 194         | 19 857         |
| Employee benefits    | 9 279          | 8 105          |
| **Total non-current liabilities** | **88 808** | **52 596**   |
| **Total liabilities** | **210 954**    | **183 379**    |
| **Net assets**       | **223 813**    | **230 920**    |

|                      |                |                |
| **Equity**           |                |                |
| Issued capital       | 4 584          | 4 584          |
| Reserves             | (11 869)       | (17 650)       |
| Retained profit      | 231 098        | 243 986        |
| **Total equity**     | **223 813**    | **230 920**    |

The accompanying notes form part of this concise financial report.
Statement of Changes in Equity
for the year ended 31 May 2012

<table>
<thead>
<tr>
<th>Note</th>
<th>Ordinary share capital</th>
<th>Retained profits</th>
<th>Financial assets reserve</th>
<th>Asset revaluation reserve</th>
<th>Foreign currency translation reserve</th>
<th>Hedging reserve</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Balance at 1 June 2010</td>
<td>4 584</td>
<td>243 735</td>
<td>-</td>
<td>8 112</td>
<td>(992)</td>
<td>3 511</td>
<td>258 950</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(251)</td>
</tr>
<tr>
<td>Transactions with owners</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(251)</td>
</tr>
<tr>
<td>Profit attributable to shareholders of the Company</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>502</td>
</tr>
<tr>
<td>Other comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(15)</td>
<td>-</td>
<td>-</td>
<td>(15)</td>
</tr>
<tr>
<td>Impairment of property plant and equipment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(15)</td>
</tr>
<tr>
<td>Gain on remeasurement of financial assets</td>
<td>-</td>
<td>-</td>
<td>1 191</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 191</td>
</tr>
<tr>
<td>Adjustments from translation of foreign associated company</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(600)</td>
<td>-</td>
<td>-</td>
<td>(600)</td>
</tr>
<tr>
<td>Cash flow hedges: losses allocated to equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(34 160)</td>
</tr>
<tr>
<td>Share of associated company’s hedging reserve movements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(422)</td>
</tr>
<tr>
<td>Share of joint venture’s hedging reserve movements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5 725</td>
</tr>
<tr>
<td>Total comprehensive income/(loss) for the period</td>
<td>-</td>
<td>502</td>
<td>1 191</td>
<td>(15)</td>
<td>(600)</td>
<td>(28 857)</td>
<td>(27 779)</td>
</tr>
<tr>
<td>Balance at 31 May 2011</td>
<td>4 584</td>
<td>243 986</td>
<td>1 191</td>
<td>8 097</td>
<td>(1 592)</td>
<td>(25 346)</td>
<td>230 920</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>(368)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(368)</td>
</tr>
<tr>
<td>Transactions with owners</td>
<td>-</td>
<td>(368)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(368)</td>
</tr>
<tr>
<td>Loss attributable to the shareholders of the Company</td>
<td>-</td>
<td>(12 520)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(12 520)</td>
</tr>
<tr>
<td>Other comprehensive income/(loss)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(224)</td>
<td>-</td>
<td>-</td>
<td>(224)</td>
</tr>
<tr>
<td>Impairment of property plant and equipment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(224)</td>
<td>-</td>
<td>-</td>
<td>(224)</td>
</tr>
<tr>
<td>Gain on sale of financial assets to income statement</td>
<td>-</td>
<td>-</td>
<td>(1 191)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1 191)</td>
</tr>
<tr>
<td>Adjustments from translation of foreign associated company</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>119</td>
<td>-</td>
<td>-</td>
<td>119</td>
</tr>
<tr>
<td>Cash flow hedges: gains allocated to equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8 232</td>
<td>-</td>
<td>8 232</td>
</tr>
<tr>
<td>Share of associated company’s hedging reserve movements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(880)</td>
</tr>
<tr>
<td>Share of joint venture’s hedging reserve movements</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(275)</td>
</tr>
<tr>
<td>Total comprehensive income/(loss) for the period</td>
<td>-</td>
<td>(12 520)</td>
<td>(1 191)</td>
<td>(224)</td>
<td>119</td>
<td>7 077</td>
<td>(6 739)</td>
</tr>
<tr>
<td>Balance at 31 May 2012</td>
<td>4 584</td>
<td>231 098</td>
<td>-</td>
<td>7 873</td>
<td>(1 473)</td>
<td>(18 269)</td>
<td>223 813</td>
</tr>
</tbody>
</table>
Statement of Cash Flow
for the year ended 31 May 2012

<table>
<thead>
<tr>
<th></th>
<th>May 2012 $’000</th>
<th>May 2011 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from sugar sales and other sales</td>
<td>289 627</td>
<td>290 613</td>
</tr>
<tr>
<td>Payments to cane suppliers</td>
<td>(168 252)</td>
<td>(185 921)</td>
</tr>
<tr>
<td>Payments to other suppliers and employees</td>
<td>(124 951)</td>
<td>(123 390)</td>
</tr>
<tr>
<td>Distributions received from associated entities</td>
<td>5 242</td>
<td>9 041</td>
</tr>
<tr>
<td>Interest received</td>
<td>880</td>
<td>987</td>
</tr>
<tr>
<td>Other revenue</td>
<td>15 499</td>
<td>13 986</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(7 197)</td>
<td>(5 197)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>10 848</td>
<td>119</td>
</tr>
</tbody>
</table>

| **Cash flow from investing activities** |                |                |
| Purchase of financial assets - shares | (29 861)       | (11 573)       |
| Proceeds from sale of investment    | 42 816         | -              |
| Contributions made to associated entities | (2 174)       | (1 322)       |
| Payments for purchases of property plant and equipment | (56 255) | (30 890) |
| Proceeds on sale of property plant and equipment | 164           | 31             |
| Proceeds on sale of property held-for-sale | 220           | 1 268          |
| **Net cash used in investing activities** | (45 090)       | (42 486)       |

| **Cash flow from financing activities** |                |                |
| Proceeds from issue of shares        | 1 155          | 1 574          |
| Dividends paid                       | (319)          | (117)          |
| Proceeds from interest bearing activities | 104 617       | 69 260         |
| Repayment of interest bearing activities | (67 854)     | (49 838)       |
| (Increase)/decrease in growers’ loans | (1 297)       | 3              |
| Decrease in interest bearing deposits | (299)         | (519)          |
| Increase in unsecured notes          | 2 384          | 2 771          |
| **Net cash provided by financing activities** | 38 387          | 23 134         |

**Net increase/(decrease) in cash and cash equivalents**
4 145          | (19 233)        |                |
Cash and cash equivalents at the beginning of the period
20 601          | 39 834          |                |
**Cash and cash equivalents at the end of the period**
24 746          | 20 601          |                |

The accompanying notes form part of this concise financial report.
Notes to the Concise Financial Report

for the year ended 31 May 2012

Note 1: Basis of preparation of the concise financial report

The concise financial report is an extract from the full financial report for the year ended 31 May 2012. The concise financial report has been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports and the Corporations Act 2001.

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

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

The Company has applied for relief available to it under ASIC Class Order 98/100 and accordingly amounts in this concise financial report have been rounded to the nearest $1,000.
### Note 2: Revenue

<table>
<thead>
<tr>
<th>Note</th>
<th>May 2012 $’000</th>
<th>May 2011 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(a) Revenue from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of goods</td>
<td>283 344</td>
<td>299 859</td>
</tr>
<tr>
<td>Services revenue</td>
<td>11 287</td>
<td>10 504</td>
</tr>
<tr>
<td>Dividends received – other corporations</td>
<td>1 486</td>
<td>1 486</td>
</tr>
<tr>
<td>Government subsidies received</td>
<td>246</td>
<td>544</td>
</tr>
<tr>
<td>Rental revenue</td>
<td>404</td>
<td>347</td>
</tr>
<tr>
<td>Royalties</td>
<td>73</td>
<td>22</td>
</tr>
<tr>
<td>Insurance claims</td>
<td>156</td>
<td>2 444</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>296 997</td>
<td>315 217</td>
</tr>
<tr>
<td><strong>(b) Finance revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank interest received – other corporations</td>
<td>821</td>
<td>987</td>
</tr>
<tr>
<td>Loan interest received – other persons</td>
<td>59</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>880</td>
<td>987</td>
</tr>
<tr>
<td><strong>(c) Revenue from non-operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on disposal of property, plant and equipment</td>
<td>151</td>
<td>-</td>
</tr>
<tr>
<td>Gain on disposal of property held-for-sale</td>
<td>215</td>
<td>1 012</td>
</tr>
<tr>
<td>Gain on disposal of financial assets – shares</td>
<td>1 382</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 748</td>
<td>1 012</td>
</tr>
<tr>
<td><strong>(d) Government subsidies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government subsidies received or receivable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government subsidies received in relation to capital projects</td>
<td>3 051</td>
<td>2 757</td>
</tr>
<tr>
<td>Government subsidies received allocated directly to income</td>
<td>91</td>
<td>389</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3 142</td>
<td>3 146</td>
</tr>
<tr>
<td><strong>Government subsidies received included in income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government subsidies received allocated directly to income</td>
<td>91</td>
<td>389</td>
</tr>
<tr>
<td>Deferred government subsidies allocated to income</td>
<td>155</td>
<td>155</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>246</td>
<td>544</td>
</tr>
</tbody>
</table>

Various government grants have been received for research and development projects. There are no unfulfilled conditions or contingencies relating to these grants as at 31 May 2012.
**Note 3: Dividends**

<table>
<thead>
<tr>
<th>Description</th>
<th>May 2012 $’000</th>
<th>May 2011 $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Dividends declared during the year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% fully franked dividend on B class investment shares franked at the tax rate of 30%</td>
<td>368</td>
<td>251</td>
</tr>
<tr>
<td>(ii) Dividends paid during the year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% fully franked dividend on B class investment shares franked at the tax rate of 30%</td>
<td>319</td>
<td>117</td>
</tr>
<tr>
<td>(iii) Dividends declared but not paid at year-end:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% fully franked dividend was declared on B class investment shares on 31 May 2012 (paid 4 June 2012)</td>
<td>191</td>
<td>142</td>
</tr>
<tr>
<td>(iv) Balance of the franking account at the end of the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The franking account will be reduced subsequent to the year-end as a result of the fully franked dividend declared per (iii) above</td>
<td>4 920</td>
<td>4 420</td>
</tr>
<tr>
<td></td>
<td>(82)</td>
<td>(61)</td>
</tr>
<tr>
<td></td>
<td>4 838</td>
<td>4 359</td>
</tr>
</tbody>
</table>
Note 4: Events after the reporting period end date

Acquisition of Mossman Central Mill Co. Ltd raw sugar milling assets

On 4 June 2012, the Company successfully acquired the raw sugar milling assets of Mossman Central Mill Co. Ltd. The net assets of $25.3 million were purchased through the issue of 6,926,742 investment shares in Mackay Sugar at the value of $11.9 million and the payment of loans and other liabilities of $13.4 million. This was funded by the drawdown of $14.2 million through an Acquisition Term Debt Facility established with NAB/Rabo. The acquisition is not included in the financial accounts for the year ended 31 May 2012. The details of the financial transactions likely to be included in the next financial year’s accounts (31 May 2013) is included in note 5: Acquisition of raw sugar milling operation.

Carbon Tax

Mackay Sugar will incur direct carbon emission liabilities under the Clean Energy Act beginning 1 July 2012, resulting from its operations at Racecourse Mill and its 25% shareholding in Sugar Australia’s Yarraville Refinery. Both sites emit more than the 25,000 tCO2e liability threshold, whereby a permit acquisition of $23.00 per tCO2e will be necessary for 12 months ending 30 June 2013. Racecourse Mill’s liability will be approximately $1.7 million per annum due to coal firing to supply energy to the Refinery during the non-crush, and a commercial arrangement is in place to share this cost between Sugar Australia and Mackay Sugar on an energy consumption basis. As a Joint Venture partner in Sugar Australia, Mackay Sugar also has a 25% liability for Yarraville Refinery’s carbon liability from gas firing, which is expected to total $1.2 million per annum (MSL share: $300,000)

Cash flow hedges

Since the end of the financial period, movements in the ICE No.11 Raw Sugar Futures prices and exchange rates have resulted in significant variances to the “mark-to-market” values reported as cash flow hedges in the financial statements.

As the Company has entered into commodity swap transactions, unrealised gains or losses on these swaps fluctuate over time in line with changes to futures prices and exchange rates. As at 31 May 2012, the accounts reported a net unrealised loss on sugar pricing derivatives of $15.7 million; however as at 22 August 2012, in anticipation of the Board meeting, this amount is calculated to be an unrealised gain of $5.9 million, based on quoted rates of the day. The change was mainly due to a rising AUD/USD exchange rate.

On settlement of these swaps, the reported gains or losses are used to adjust the proceeds from the sale of raw sugar, resulting in the Company receiving the fixed contracted swap price for the sale of that sugar.

Other matters

No other matter or circumstance has arisen in the interval between the end of the financial period and the date of this report, which has significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.
Note 5: Acquisition of raw sugar milling operation

On 4 June 2012, the Company acquired the raw sugar milling assets and liabilities of Mossman Central Mill Co. Ltd. The acquisition will enhance the Company’s core business operations, progress the Company’s strategy of diversification, and increase the sources of sugarcane supply.

The acquisition has not been included in the financial accounts for the year ended 31 May 2012. The financial information disclosed below represents the likely outcome that will be included in the financial accounts for the year ending 31 May 2013. As at the date of this report, the acquisition transactions have not been finalised. The below disclosures may change in the financial accounts for the year ending 31 May 2013.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

<table>
<thead>
<tr>
<th>Purchase consideration</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>13,386</td>
</tr>
<tr>
<td>Investment shares (6,926,742 shares)</td>
<td>11,914</td>
</tr>
<tr>
<td>Total purchase consideration</td>
<td>25,300</td>
</tr>
</tbody>
</table>

The assets and liabilities recognised as a result of the acquisition are as follows:

<table>
<thead>
<tr>
<th>Fair Value</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>214</td>
</tr>
<tr>
<td>Inventories</td>
<td>601</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>26,181</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>72</td>
</tr>
<tr>
<td>Loans receivable</td>
<td>2</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>29</td>
</tr>
<tr>
<td>Trade payables</td>
<td>(828)</td>
</tr>
<tr>
<td>Provision for employee benefits</td>
<td>(970)</td>
</tr>
<tr>
<td><strong>Identifiable assets acquired and liabilities assumed</strong></td>
<td><strong>25,301</strong></td>
</tr>
<tr>
<td>Goodwill</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Net assets acquired</strong></td>
<td><strong>25,300</strong></td>
</tr>
</tbody>
</table>

No amounts were recognised for contingent liabilities at the time of the acquisition or subsequently.
Note 5: Acquisition of raw sugar milling operation (continued)

There were no acquisitions in the year ending 31 May 2011.

(i) Contingent consideration
There was no contingent consideration included in the acquisition contract.

(ii) Investment share consideration
Investment shares totaling 6,928,742 were issued to Mossman Central Mill Co. Ltd for a total fair value of $11,913,996. As the Company’s shares do not trade on an open market, the fair value of $1.72 per share was determined by calculating the fair value of the Company’s net assets per share prior to the acquisition as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of Mackay Sugar Ltd net assets prior to acquisition</td>
<td>$344 million</td>
</tr>
<tr>
<td>Number of investment shares issued prior to acquisition</td>
<td>200 million</td>
</tr>
<tr>
<td>Fair value of net assets per investment share prior to acquisition</td>
<td>$1.72</td>
</tr>
</tbody>
</table>

(iii) Acquired receivables
The fair value of acquired trade receivables is $214,000. The gross contractual amount for trade receivables due is $214,000 of which $nil is expected to be uncollectible.

(iv) Non-controlling interests
The Company acquired 100% of the raw sugar milling assets and there were no non-controlling interests included in the acquisition.

(v) Revenue and profit contribution
The acquired business contributed no revenue or profit to the Company for the year ended 31 May 2012.

(vi) Acquisition-related funding
The acquisition was funded by the drawdown of $14.2 million through an Acquisition Term Debt Facility established with NAB/RABO. The loan is repayable as follows:

- Due 30 November 2012 $710,000
- Due 31 May 2013 $710,000

The interest rate will be calculated as the base rate (BBSY) for the relevant funding period plus a margin of 3.7%.

(vii) Acquisition-related costs
Acquisition-related costs of $515,459 are included in administration expenses in the income statement for the year ended 31 May 2012. The statement of cash flow includes acquisition-related costs of $244,209 in cash flow from operating activities for the year ended 31 May 2012.

For the year ending 31 May 2013, acquisition-related costs of $1,503,975 will be included in administration expenses in the income statement, and $1,775,225 will be included in the cash flow from operating activities in the statement of cash flow.
The Directors of Mackay Sugar Limited declare that the concise financial report of Mackay Sugar Limited for the year ended 31 May 2012, as set out on pages 80-91:

(a) complies with Accounting Standard AASB 1039; Concise Financial Reports; and

(b) is an extract from the full financial report for the year ended 31 May 2012 and has been derived from and is consistent with the full financial report of Mackay Sugar Limited.

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

AS Cappello
Chairman

JR Magill
Deputy Chairman

Dated 24 August 2012
Mackay Sugar Limited
Independent Audit Report to the members of Mackay Sugar Limited

Report on the concise financial report
We have audited the accompanying concise financial report of Mackay Sugar Limited which comprises the statement of financial position as at 31 May 2012, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and related notes, derived from the audited financial report of Mackay Sugar Limited for the year ended 31 May 2012 and the discussion and analysis. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors’ responsibility for the concise financial report
The Directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 Concise Financial Reports, and the Corporations Act 2001 and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor’s responsibility
Our responsibility is to express an opinion on the concise financial report based on our procedures which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Mackay Sugar Limited for the year ended 31 May 2012. We expressed an unmodified audit opinion on that financial report in our report dated 30 August 2012. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 Concise Financial Report and whether the discussion and analysis complies with the requirements laid down in AASB 1039 Concise Financial Reports.

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

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Mackay Sugar Limited on 6 September 2011, would be in the same terms if provided to the directors as at the date of this auditor’s report.

Auditor’s opinion
In our opinion, the concise financial report including the discussion and analysis of Mackay Sugar Limited for the year ended 31 May 2012 complies with Accounting Standard AASB 1039: Concise Financial Reports.

Report on Other Legal and Regulatory Requirements
We have audited the Remuneration Report included in pages 7 to 12 of the report of the directors for the year ended 31 May 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

D E Camilleri FCA
Level 1/122 Wood Street
Mackay Qld 4740
30 August 2012
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>ACFA</td>
<td>Australian Cane Farmers Association</td>
</tr>
<tr>
<td>AE&amp;E</td>
<td>Austrian Energy and Environment</td>
</tr>
<tr>
<td>AIFR</td>
<td>All Injury Frequency Rate</td>
</tr>
<tr>
<td>AIFRS</td>
<td>Australian International Financial Reporting Standards</td>
</tr>
<tr>
<td>AgDat</td>
<td>A map based program to assist growers and research body, AgriServ</td>
</tr>
<tr>
<td>AMT</td>
<td>Australian Molasses Trading Pty Ltd</td>
</tr>
<tr>
<td>AMWU</td>
<td>Australian Manufacturing Workers’ Union</td>
</tr>
<tr>
<td>ASMC</td>
<td>Australian Sugar Milling Council</td>
</tr>
<tr>
<td>ASSCT</td>
<td>Australian Society of Sugar Cane Technologists</td>
</tr>
<tr>
<td>ATO</td>
<td>Authority to Operate</td>
</tr>
<tr>
<td>AWU</td>
<td>Australian Workers’ Union</td>
</tr>
<tr>
<td>Bargaining Agents</td>
<td>Mackay Sugar, Canegrowers Mackay and Australian Cane Farmers Association</td>
</tr>
<tr>
<td>BSES</td>
<td>BSES Limited</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DCS</td>
<td>Distributed Control System</td>
</tr>
<tr>
<td>DEEDI</td>
<td>Department of Employment, Economic Development and Innovation</td>
</tr>
<tr>
<td>DERM</td>
<td>Department of Environment and Resource Management (formerly known as the EPA)</td>
</tr>
<tr>
<td>EANT</td>
<td>Enterprise Agreement Negotiating Team</td>
</tr>
<tr>
<td>EBA</td>
<td>Enterprise Bargaining Agreement</td>
</tr>
<tr>
<td>EEO</td>
<td>Energy Efficiency Opportunities Act Equal Employment Opportunities</td>
</tr>
<tr>
<td>EMS</td>
<td>Environmental Management System</td>
</tr>
<tr>
<td>ETU</td>
<td>Electrical Trades Union</td>
</tr>
<tr>
<td>ha</td>
<td>Hectares</td>
</tr>
<tr>
<td>IPS</td>
<td>International Pol Scale</td>
</tr>
<tr>
<td>ISO 14001</td>
<td>An international standard for environmental management systems</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JSRA</td>
<td>Job Start Risk Analysis Assessments</td>
</tr>
<tr>
<td>km</td>
<td>Kilometres</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>kV</td>
<td>Kilovolts</td>
</tr>
<tr>
<td>LTI</td>
<td>Lost Time Injury</td>
</tr>
<tr>
<td>LTIFR</td>
<td>Lost Time Injury Frequency Rate</td>
</tr>
<tr>
<td>MAPS</td>
<td>Mackay Area Productivity Service</td>
</tr>
<tr>
<td>ML</td>
<td>Megalitres</td>
</tr>
<tr>
<td>MRBPP</td>
<td>Mackay Renewable Biocommodities Pilot Plant</td>
</tr>
<tr>
<td>Mt</td>
<td>Million tonnes</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatt</td>
</tr>
<tr>
<td>NGERS</td>
<td>National Greenhouse and Energy Reporting System</td>
</tr>
<tr>
<td>NPI</td>
<td>National Pollutant Inventory</td>
</tr>
<tr>
<td>PMDS</td>
<td>Performance Management and Development System</td>
</tr>
<tr>
<td>PRS</td>
<td>Per cent Recoverable Sugar</td>
</tr>
<tr>
<td>QSAFI</td>
<td>Queensland Sustainable Aviation Fuel Initiative</td>
</tr>
<tr>
<td>QSL</td>
<td>Queensland Sugar Limited</td>
</tr>
<tr>
<td>QUT</td>
<td>Queensland University of Technology</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
</tr>
<tr>
<td>SRI</td>
<td>Sugar Research Institute</td>
</tr>
<tr>
<td>STL</td>
<td>Sugar Terminals Limited</td>
</tr>
<tr>
<td>t</td>
<td>Tonnes</td>
</tr>
<tr>
<td>t/ha</td>
<td>Tonnes per hectare</td>
</tr>
<tr>
<td>tph</td>
<td>Tonnes per hour</td>
</tr>
<tr>
<td>TPM</td>
<td>Total Productive Manufacturing</td>
</tr>
<tr>
<td>/t</td>
<td>Per tonne</td>
</tr>
</tbody>
</table>
This annual report is printed on a paper stock which is made from recycled sugarcane.
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Queensland Australia 4741

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Queensland Australia 4873