CIRCULAR TO GROWERS and SHAREHOLDERS

Following the recent round of shed meetings, there were a number of questions raised by growers regarding the Kidder Williams report and the Board's plan going forward. The following Question and Answer document is to assist growers to better understand the Board's position.

ASSETS

Q – Why isn't Mossman sold first?

The Board and management have met with Mossman and Tablelands Canegrower and ACFA members to commence the process of exploring the opportunities for the Mossman and Tableland growers to remain in control of the mill. MSL will make a decision on Mossman mill which is in the best interest of all its growers and shareholders, however the sale of Mossman mill is only one of many initiatives the Board is undertaking to improve MSL's financial position and performance.

Q - Is Mossman profitable?

At present Mossman is projected to be marginally profitable, however after capital expenditure, it is cashflow negative.

Q - Is Cogeneration making a profit and if so why sell it?

Cogeneration is profitable. It is therefore the most marketable non milling asset which MSL owns. This means that it should be able to be sold for an acceptable price allowing debt to be paid down and some capital made available for asset refurbishment.

Q - Why don't we sell the whole business as suggested by some growers?

The Board believes the majority of growers would prefer to retain control over the milling business which processes their cane, particularly with the current issues between growers and other milling companies. It is unlikely with the current financial performance there would be any return to shareholders. Furthermore, the strategy of selling cogeneration and growers contributing to the mills is focussed on building future value in the mills.

Q – Why don't we get an equity partner?

The Board has engaged Kidder Williams to consider all options for MSL. Their current advice was shared with all growers on 23 February 2017. Please refer to the Mackay Sugar website for further information.

Q – Why don't we get into bed with another Milling Company

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Q – How much will we get per share if the business is sold?

It is speculative to determine the receipts per share until a sale price was negotiated.

We would generally expect a buyer will consider the value of the assets based on the income stream they could generate under their ownership. Whether they would be prepared to pay a premium over that price would depend on who else may be interested in acquiring the assets at the time. The Grower Choice legislation will have taken away some of the potential premium that MSL could have expected if the assets had been sold when Wilmar and COFCO were looking to make Australian acquisitions.

Any return shareholders get for their shares will come after the bank debt, Corporate bonds, unsecured notes and other preferred creditors are paid and will then be distributed based on the number of investment shares each shareholder holds. There will be no return for voting shares as such.

OPERATIONAL

Q – How do we know that management is operating the mills as efficiently as possible?

Maintenance is risk scored and jobs are completed as per ranking and within the available budget. Management is fully aware that the additional work should be carried out on the assets, however this work cannot be completed due to the lack of available funds. An overview is regularly conducted by the site teams and asset group. Operations are regularly challenged to streamline the process remembering we estimate 50% of the breakdowns are caused by operators or operational processes. Competency based training will commence at Marian in readiness for the 2017 crushing season.

Q - Why are management numbers so high (much higher than when mills were separate)?

It was confirmed at the shed meetings that the number of staff positions had decreased by at least 30 compared to the employee statistics available for 1970 and 1997. Any further decrease in the number of staff will impact significantly on the delivery of services to shareholders and growers, and may impact on the efficiency of mills, cane supply, transport and rail infrastructure business units. As the business changes with asset sales etc the organisational design will also change to suit the business needs.

Q – How do we know that management is set up right?

There are many different models under which MSL can be operated. The current management structure uses centralised departments to provide services to the mills. In recent times some of these centralised roles have been moved back to the mills to give the mill managers more oversight on these functions. Some centralised roles are still required to provide consistency across the business for statutory reporting purposes and business efficiency. The management structure will continue to change as the business needs change, the asset base alters and new technologies are introduced.

Q – What is being done to improve the workforce (knowledge and productivity)?

It was reported at the shed meetings that a competency based training program has been rolled out at Marian mill for this season. All production employees will be trained under this program and this will allow employees to be multi-skilled across a number of positions. The training will also be conducted at Farleigh and Racecourse mills in the 2018 and 2019 maintenance seasons. A centralised Control Room is being built at Marian to house all control room employees in one facility and this will enhance the problem solving skills of employees. A 2.5% increase in availability and a rate increase of 10 – 15 tonnes per hour is targeted from this initiative.

Q – Why does management not take a pay cut?

In order for MSL to remain competitive in the labour market it must pay reasonable salaries. MSL staff remuneration is not considered excessive when compared to industry benchmarks. This comparison is reviewed annually to ensure MSL remains competitive.

Q – Why doesn't the work force take a pay cut?

In order for MSL to remain competitive in the labour market it must pay reasonable wages. MSL has worked closely with its employee representatives to minimise wage increases during its recent enterprise bargain agreement negotiations whilst still remaining competitive in the current market environment.

GROWER COSTS

Q – Why should the growers have to pay?

The profit generated by the business under the current cane pay formulae along with profit contributions from Sugar Australia and cogeneration does not generate enough cash to maintain the asset base, provide capital to upgrade assets and meet other commitments such as loan repayments. MSL's asset base per tonne of cane produced is one of the highest in the industry.

If the growers wish for MSL to remain grower owned they need to help fund the shortfall and the capital refurbishment to help improve the efficiency and lower the cost base of the business. When the business reaches a sustainable level of performance, profitability and crop size, the grower contribution will be reviewed.

Q - How do growers know that the money they contribute will be spent on their mills i.e. Mackay area versus Mossman?

It is not proposed that contributions from particular mill areas are quarantined to those particular mills. In the past, capital has been allocated to the mills where the needs are greatest and investments in future will be made based on efficiencies and generating the best return on the investments. In some cases additional capital will need to be channelled to particular mills to address long term issues that have required significant capital which we may not have had available in the past. For the YEM18 capital budget the capital funding to be directed to Mossman mill is for statutory jobs only that are required to ensure the mill operates.

Q – Why is MSL pushing the cost back onto the growers through changes to the CSPA i.e. extended hours

MSL needs to remain competitive and as a minimum needs to operate with at least industry standard agreements with its growers to keep its operating costs under control. All aspects of our operations need to be considered where efficiencies could be improved. The current CSPA has generous provisions compared to other milling companies. Examples include CTEP approximately "50"% greater than industry average and the transport system having to cope with the majority of our harvesting activity been carried out over 10 hours, as well as a large number of sidings to operate and maintain some with only a few thousand tonnes passing through some of them.

Q – Why can't we just sell more assets and not ask the growers for more?

If we don't change the way we operate and generate income from sugar, selling assets will only prolong the point at which the business will become unviable. This means that the funds raised by the sale of these assets will be absorbed by the operating costs of the business. As part of these asset sales a significant amount of the funds raised will need to be repaid to the banks to reduce the loans. We therefore need to look at a combination of assets sales, operating costs reductions, cane supply efficiency measures and grower contribution to address the current business needs.

Q - Could shares be issued for the Grower contribution?

Some preliminary investigation has been done on whether shares could be issued in recognition of the Grower Contribution. The prospectus requirements and tax issues that may arise are being worked through.

Additionally management is investigating the option of treating the grower contribution as a deferred payment for cane on the basis that it will be repaid at some time in the future. The ultimate repayments would be dependent on the Company circumstances but would be prior to any payment to shareholders.

Q – Why can't MSL just borrow more money from the banks?

MSL is heavily leveraged and the Board is unwilling to take on further debt until business performance improves and debt can be comfortably managed.

Q – How do we know that the cost to growers will not be increased later?

At the recent round of shed meetings, the Board conveyed their preference for a Grower contribution of $2/tonne through reduced cane pays. The Board and management will ensure that relevant key performance indicators are established to enable growers to monitor progress of the plan. The Board will ensure a review point is put in place to formally review the progress of the plan to assess the viability of continuing.

MARKETING

Q – Why is MSL/QCS marketing not performing as well as other mill areas?

QCS was set up by MSL to develop in-house risk management and marketing expertise, but to date has not delivered the returns expected by MSL or growers.

Over the past year, the MSL and QCS Boards have made significant changes at QCS; employing a new pricing team in Queensland and developing a strategy to deliver better returns with a lower risk profile. QCS is targeting strong returns in the deregulating, competitive sugar marketing environment. Over recent months, thanks to the new team, QCS has been delivering returns higher than those sought by our growers in their individual pricing orders.

It is very tempting to compare bottom-line pool price numbers, but comparing pool prices does not give you the full picture, unless the risk profile of the pools being compared is identical.

QCS has been running shed meetings over the past few months, introducing the new team and explaining their pricing and risk management approach. This approach will continue approach between now and the beginning of the crushing season. If you'd like to find out about the next series of meetings or talk to QCS directly, please contact them on 07 4953 8886.

BOARD

Q – Why does the Board not resign over mill condition/performance?

The current asset condition and subsequent performance of the assets has built up over many years and it is unfair to blame any one Board. The crop size which is the single biggest factor in profitability has been in decline. The poor condition of the assets has come about due to underspending on maintenance and capital over many years. This underspend is a result of lack of profit over many years due to a combination of many factors including reduced crop size, poor sugar prices, deteriorating milling performance, increase in season length, the imbalance in the cane payment formula, investments in non-core assets not performing to expectations, loss of experience in all levels of the organisation through natural attrition, redundancies and loss to the mining industry during the mining boom and weather events. The current Board and management have been working on these issues for some time now and are best placed to implement the changes in conjunction with growers and shareholders.

Q – Why do we need more Non Grower Board members?

Under the current constitution the Board must consist of five Grower Directors and a minimum of two and maximum of four Independent Directors. The Independent Directors are needed to bring in additional business skill sets not common among Grower Directors to ensure the Board has a diverse range of views involved in the decision making process. Additional Independent Directors will bring additional skill sets into the business at relatively little cost.

Q - How do growers know that Kidder Williams is not just saying what Board and management want them to say (as they are paying the bill)?

Kidder Williams reputation as one of the most respected corporate advisors to Australian agribusiness depends on them providing strong, honest and valuable advice. They have a long history as the leading adviser in food and agriculture and there is no reason why they would risk their reputation for one client by not being honest in its assessment of MSL.

PLAN

Q – How do growers know that this plan is able to be achieved?

Kidder Williams has confirmed that this is the most likely strategy to enable MSL to improve the mills and build value in MSL for the future whilst retaining grower control. The Board and management are committed to execute the plan.

Ultimately however the plan will only be achieved with the growers supporting the initiatives aimed at retaining grower control of the business.

Q - How do growers know that this Board and current management team can make this plan work?

The current Board and management have been working on these issues for some time now and are best placed to implement the changes in conjunction with growers and shareholders. With the guidance of its advisors and the support of its growers, the Board and management are comfortable the plan will work.

Q – How will the growers know how the plan is progressing?

The Board and management will map out the plan and report regularly to MSL shareholders and growers on its progress. It should be noted that the progress of the plan will still be dependent on many factors including crop size, throughput and price.

Q – What if not all growers want to follow the plan ie some will and some won't?

The ability of the Company to remain grower controlled will depend on the support of all growers for the plan. At this stage it is expected that we will have full support for the plan. If growers do not support the plan then alternative measures will need to be considered and grower control in future cannot be guaranteed.

11 April 2017