

Mackay Sugar Limited
Annual General Meeting – 8 December 2010
Chairman's Address

It gives me great pleasure to present to you the Annual Reports and Financial Statements for the year ended 31st of May 2010, my first report as Chairman of Mackay Sugar. It is an honour and a privilege to hold this position, and I do accept the challenge and the responsibility that it presents. I look forward to working with directors and staff in addressing the challenges which currently face our industry as we seek to improve our business and increase shareholder value.

I am fortunate that the Board is supportive and is working very well together with Directors complementing each other's skill sets.

Before proceeding with the formal agenda I would like to introduce you to our new director, Tony Bartolo. Tony joined the Board in April this year following the retirement of the former Chairman, Eddie Westcott.

On behalf of the Board and shareholders I would also like to place on record our appreciation of the contribution of former Director, Richard Galea and former Chairman, Eddie Westcott who have both recently retired from the Board.

Eddie had been a Director since the inception of the Mackay Sugar Cooperative in 1988 and was a Director of Racecourse mill prior to that.

As Chairman of our company he was an astute businessman who was instrumental in introducing the new corporate structure and also strongly promoted the push for diversification within the company. We are now well positioned to take advantage of future opportunities. At the same time Eddie maintained an excellent rapport with our growers and industry organisations and on behalf of all shareholders and industry associates, I wish him well in his retirement.

It is with pleasure that I present the annual reports and financial statements of the company for the 11 month period ended the 31 May 2010 for your consideration.

The decision to change our year-end date was taken to more correctly align income and expenditure to the crop harvested for the year, as crushing operations regularly commence in June.

The revised year-end date had been previously advised to shareholders and has received ASIC approval.

FINANCIAL RESULT

The financial result for the period was a significant improvement on previous years with an operating profit of \$44.3 million compared to a profit of \$6.25 million in the previous year. This can be attributed to good sugar prices and lower operating costs. With the world sugar market in deficit for the second consecutive year, the spot price rose to a 30 year high in February and the Company and our growers were able to take advantage of the available prices when completing the hedging program for the 2009 crop. While the crop of 5.3 million tonnes was below initial expectations, the improved sugar price and the decision to operate just three factories resulted in a very acceptable result.

Milling performance for the reporting period saw a step change from previous years with mill availability of 91% the highest for many years. Technical and commercial index of 96.78 and 103.47 respectively were also some of the highest results recorded in the industry. A good effort by all the staff involved. But as we all know each year presents new challenges.

The Chief Executive Officer will present more detail on the factory operations and financial performance of the company later in the meeting.

RATIONALISATION

As you all would be well aware, there is quite a lot of activity going on within the Queensland sugar industry in terms of rationalisation at the moment. Domestically, Maryborough Sugar and Bundaberg Sugar have formed a joint venture in the north with an option for Maryborough Sugar to purchase the remaining 50% of Bundaberg Sugar by 2012.

Internationally, Wilmar is in the final stages of acquiring Sucrogen with the final New Zealand investment approval eminent. This follows a failed attempt by Bright Foods to acquire Sucrogen. Mitr Phol has purchased 19.9% of Maryborough shares. You may also be aware of a number of other International companies running the ruler over Queensland sugar companies as we speak, with a view to acquiring these assets to amalgamate them, creating value for themselves and also securing a supply of sugar. Like or not, international investment is coming.

The Queensland sugar industry has got two choices. We can sit back and wait for that to happen, or we can be proactive and take advantage of rationalisation opportunities which may arise and at the same time protect the interests of our shareholders by capturing the value for ourselves. If we are proactive we can do it on our terms and on our conditions and within our control.

The Board is of the belief that within two or three years the Queensland sugar industry could be reduced to three or even two major sugar companies. We are also of the strong view that forming a bigger, stronger, more robust sugar company on our terms and conditions is in the long term best interest of the company and our shareholders.

The business approach of Tully, Proserpine, Mossman, Isis and ourselves is to recognise the value of the growers in the supply chain. It is an alternative business approach which I do believe the industry cannot afford to lose. We are in discussion with some of these milling companies, with a similar philosophy to ours, to improve the financial position of growers and shareholders alike.

I would like to announce here today that Mackay Sugar is in the process of purchasing a small parcel of Tully Sugar shares, at this point in time that number is approximately 3%. The Board views the Tully milling operations as being very similar to ours, with similar culture and dealings with shareholders. Tully has sound milling operations with good throughput. This purchase will give us a toe hold in Tully and will open the door to discuss future strategic options in the far north. We believe there is upside in the value of Tully shares, so if nothing eventuates, we have the option to sell down the shares in the future.

The Board remains committed to expanding on its core business and delivering value to shareholders. Obtaining a small equity stake in Tully Sugar is part of creating options for the business in the future.

REFINERY INTERESTS

Within one week of the announcement of Wilmar's intended acquisition of Sucrogen we had met with Wilmar's Chairman and Senior Executives, firstly to get an initial feel for the company and secondly, to get a high level assessment of their short to medium term intentions. At this stage they are happy to continue in the joint venture arrangements, but would be prepared to accommodate our intentions as well, whether that is to continue the joint venture or exit. The Board is considering its options in this regard.

20 YEAR DIVERSIFICATION PLAN

Ladies and gentlemen, a major concern for our local industry is the loss of the next generation of farmers coming through to take over the family farm. One thing that Mackay Sugar is doing to encourage young farmers back into the industry is developing a 20 year diversification plan for our business. The plan looks at what projects are possible through value adding of our cane crop, it looks at which of our three sites the projects would be best located, and it considers what are the future land, water and other infrastructure requirements for these projects. This gives us a solid basis to talk to the Mackay Regional Council and identify areas where we can work together and also areas where there will be issues, so that we can address them ahead of time. We appreciate the problems facing Council in addressing the increasing demand for residential land, however we are committed to protecting our cane growing land and the required infrastructure to meet the current and future needs of our company.

The plan identifies capital requirements of approximately \$600M and also the revenue stream of around \$300m per annum which will come from these projects. The Board believes that creating an environment where a young farmer can see that a substantial percentage of his income will be generated

from sources other than raw sugar could be the trigger to encouraging young farmers to remain in the industry. There is a more detailed presentation on our 20 year diversification plan, to be presented later in the meeting.

CANE GROWING AREA

A concern for growers and millers alike has been the steady decline in crop yield over the past few years.

Maintaining a solid cane supply for this business rates at number one priority for the Board. There is not a single board meeting where it is not discussed, but unfortunately there is no silver bullet to address this issue. But, I can tell you what we are doing.

We are continuing to support the change introduced five years ago which sees growers receiving extra payments for molasses and fibre.

We are the only miller in the State that continues to select prices and forward price sugar for our growers.

We have initiated Secure the Future 1 and 2 and I am pleased to announce here today, Secure the Future 3 for next year where growers can be guaranteed a sugar price of \$420 a tonne for four years, for sugar which is produced off new land brought under cane, under the same terms and conditions as the previous two plans.

We continue to support 100% funding of BSES and MAPS and also the additional funding which will be required for BSES over the next two years.

We are currently developing new incentives for next season where Mackay Sugar will buy or lease land, develop it into production and then either re-sell it or re-lease it back to growers to secure it for cane growing purposes.

Along with Canegrowers we have initiated a study led by Agriserv to identify the reasons why yield has reduced by 20 percent in the last fifteen years.

We are taking the leading role in a review of all R&D in the state. Quinton through his position as Chair of ASA is also Chairing the committee that have engaged Port Jackson Partners to consider and make recommendations to the industry on the future direction of BSES and other R&D providers.

As I said earlier there is no silver bullet fix, but I can assure you the Board is giving it the attention it deserves.

DEMAND FOR FUNDS

Ladies and gentlemen this business has many requirements for our finances, and balancing those requirements is a major task. The Board has to continually stand back and ask itself what is the best “bang for our buck” for both the short and long term success of the business. The three top demands for funds are:-

- 1. Maintaining a cane supply and maintaining the capacity both in rail infrastructure and in the mills to process the crop.**
- 2. Securing and retaining a competent work force is absolutely vital for the success of this business and we have no choice, but to meet the market in**

terms of pay and conditions if we want to retain and attract experienced people. By introducing a bonus linked to performance, we believe the resultant increase in efficiency more than compensates for any bonus payment and will improve our overall profitability.

3. Equally important is planning for the future by initiating opportunities now that will come to fruition at a later date, such as Co-generation and other diversification projects including rationalisation opportunities. The challenge is balancing all of these demands.

The Deputy Chairman and CEO will present the latest up to date information on the Co-Gen project in their reports.

END OF SEASON

With an untimely finish to this year's harvest caused by the unseasonal rain, it is important that we have rules in place to maintain an orderly and equitable harvest. Unfortunately it is very inefficient to operate factories with an inconsistent supply of cane. The Cane Supply Department has a very difficult task sourcing a supply of cane from where ever they can, during wet conditions to maintain factory throughput. With the stop start nature to this year's crush, compounded by the mud problem, it was impossible to maintain a consistence supply of bins to harvesters.

Despite harvesters doing all they can to minimise dirt in the cane supply, the high mud levels entering the factories were at a level never encountered before, and in a number of cases brought factories to a complete stop and causing considerable damage. Marian mill alone lost 209 hours from high mud loadings. I saw firsthand the extraordinary effort made by mill employees in

trying to manage the dirt. I also saw the temporary and desperate ideas introduced by staff which has been communicated from other mills in the state in an attempt to process the dirt. In addition to this, management are already considering options to improve mud handling operations within all the factories for next season.

The issue the Board has to consider is what resources do we commit to this problem, knowing it could only be a once in a life time event.

The Board will be considering a policy on excessive dirt in cane for future seasons. These policies need to be considered in the clear light of day and not developed on the run. We will seek support from the Bargaining agents and acceptance from growers before the introduction of any policy.

Before moving the adoption of the reports, I would like to commend the resolutions to amend the Company Constitution.

These amendments will streamline our corporate operations and bring us more into line with modern company practice. A separate presentation on the resolutions will be made prior to the ballot.

Once again we have had an excellent working relationship with the industry organisations, lead by Paul Schembri and Ross Walker. I am thankful we continue to work so well in a constructive and respectful partnership in this district.

In conclusion I wish to convey my gratitude to fellow Directors, the Chief Executive, Quinton, the staff and employees of the company for their commitment and help during a very demanding period. I would also like to thank our growers and harvesting contractors for their continued support and wish them well for future seasons.

Ladies and gentlemen, I now formally move the adoption of the Annual Report and Financial Statements for the period ended 31 May 2010 and I call on the Deputy Chairman, Ray Magill to second the adoption.