



Mackay Sugar Limited

Directors' Report

9 month period ended 29 February 2020

Directors' Report for the period ended 29 February 2020

The Directors present their report, together with the consolidated financial statements, on the Group comprising of Mackay Sugar Limited (referred to hereafter as the 'Company' or 'parent entity') and its subsidiaries for the 9 month period ended 29 February 2020, and the auditor's report thereon.

Board of Directors

The Directors who were in office from 1 June 2019 to the date of this report are as follows:

| | |
|----------------------|--------------------|
| M (Michael) Gerloff | Chairman |
| MR (Mark) Day | Executive director |
| PA (Paul) Manning | Deputy Chairman |
| AR (Tony) Bartolo | |
| LM (Lee) Blackburn | |
| LG (Lawrence) Bugeja | |
| SU (Sven) Buhrmann | |
| AS (Andrew) Cappello | |
| RM (Richard) Findlay | |
| FJ (Frank) Knaelmann | |
| MC (Maurie) Maughan | |
| G (George) Williams | |

The profiles of the above Directors can be found on pages 35-37. A record of Board Meeting attendance during the year under review is set out on page 50.

Changes to the Board

M. Gerloff

Michael Gerloff was appointed to the Board on 31 July 2019 and promoted to Chairman on 21 August 2019.

S.U. Buhrmann

Sven Buhrmann was appointed to the Board on 31 July 2019.

F.J. Knaelmann

Frank Knaelmann was appointed to the Board on 31 July 2019.

G. Williams

George Williams was appointed to the Board on 21 August 2019.

The following directors retired from the Board on 21 August 2019:

- A.R. Bartolo
- L.G. Bugeja
- A.S. Cappello
- R.M. Findlay

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Change in Chief Executive Officer

Jannik Olejas was appointed CEO of the Company on 21 April 2020 by the Board of Directors and replaces Mark Day. Jannik had previously been in the position of General Manager since 1 September 2019. Mark Day continues to be a Director on the Board of the Company.

Company Secretary

Donna M. Rasmussen – Company Secretary (Retired 1 December 2019)

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

Peter J. Gill – Company Secretary & Legal Counsel (Appointed 2 December 2019)

Company Secretary since 2 December 2019, Peter has worked for Mackay Sugar Limited in various management positions since August 2012.

Directors meetings

The number of Directors meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial period were:-

| MEETINGS OF DIRECTORS | | | | |
|------------------------------|---------------------------|---|--|---|
| | Directors Meetings | Committee Meetings of Directors Number of Meetings Attended/Held | | |
| | | Audit and Finance | Remuneration and Nomination | Health, Safety and Environment |
| M. Gerloff | 6 of 6 | 2 of 2 | | |
| M. R. Day | 10 of 10 | 6 of 7 | | 4 of 4 |
| P. A. Manning | 10 of 10 | 7 of 7 | | 1 of 1 |
| A. R. Bartolo | 4 of 5 | | | 1 of 1 |
| L. M. Blackburn | 10 of 10 | 2 of 2 | | |
| L. G. Bugeja | 4 of 5 | | | 1 of 1 |
| S. Buhrmann | 6 of 6 | 1 of 1 | | 4 of 4 |
| A. S. Cappello | 5 of 5 | | | |
| R. M. Findlay | 5 of 5 | | | |
| F. Knaelmann | 6 of 6 | 1 of 1 | | |
| M. C. Maughan | 10 of 10 | 7 of 7 | | |
| G. Williams | 6 of 6 | 2 of 2 | | 4 of 4 |

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Principal activities

Principal activities of the Group are:

- (a) to acquire, transport and process sugar cane to produce raw sugar products and by-products and to transport, store, market, price and distribute those products and by-products;
- (b) to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and
- (c) to produce, market and distribute electricity and other value-added commodities through the use of products and by-products arising from the activities in (a) and/or (b) above.

There was no significant change in the nature of the Group's principal activities during the financial period.

Review of operations

Information on the operational performance of the Group for the period ending 29 February 2020 is discussed in the *Operations* section (pages 20 to 33) of this report.

Operating results

Operating results for the period ending 29 February 2020 are set out in the *Year in Review* (pages 14 to 19) and the *Financials* section (pages 55 to 131) of this report.

Health, Safety and Environment

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

The Company is subject to a range of environmental legislation in Australia. Information on the Company's compliance with environmental legislation is contained in the *Environment* section (page 32) of this report.

Equal employment opportunities

The Company's employment policies are continually reviewed to ensure compliance with governing legislation in the area of equal employment opportunity. The Company is compliant with the requirements of the Equal Opportunity for Women in the Workplace Agency (EOWA).

Information on the Company's compliance with equal employment opportunity legislation is detailed in the *Employees* section (pages 29 to 31) of this report.

Dividends paid or recommended

No dividends were paid or declared for payment during the financial period.

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Remuneration report

As the Company is not a listed company and is not classified as a 'disclosing entity' under the *Corporations Act 2001*, a remuneration report is not required to be disclosed. Accordingly, a remuneration report has not been presented in the Directors' report. Under the accounting standards, the Company is required to disclose summarised remuneration information in relation to the Directors and certain executives in the notes to the accounts. This information is included in note 6 of the financial statements associated with this report.

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

Recapitalisation

The recapitalisation process was successfully completed during the period with Nordzucker AG obtaining a 70% controlling interest in the Company from 31 July 2019. Nordzucker AG management have been embedded within the Company's organisational structure and management and operational processes are, where appropriate, being updated in accordance with Nordzucker practices. Full details of the change in the capital structure of the Company and the updated financing facilities following the recapitalisation process are presented note 24 and note 28 of the financial statements associated with this report. Further explanations of the changes in the financial accounts and the major financial impacts resulting from the recapitalisation is included in the 'Financial Snapshot' section of the annual report.

Sale of Mossman Mill

The sale of the Mossman milling operations to Far Northern Milling Pty Ltd occurred on 5 July 2019. The sale transaction included all assets and specified liabilities associated with the Mossman milling business. Further details of the financial impacts of the sale process during the period is included in note 35 of the financial statements associated with this report.

Change in status of the Company

The settlement of the Company's \$50 million unsecured notes (bonds) and the closure of the Company's legacy unsecured notes and interest-bearing-deposit schemes during the period, has resulted in the Company no longer being classified as a 'disclosing entity' under the *Corporations Act 2001*. This has reduced some of the financial and regulatory reporting obligations of the Company. Further details of the financial reporting changes resulting from this are explained in note 1 of the financial statements associated with this report.

Application of new sugar marketing legislation

New sugar marketing arrangements have been implemented for the first time during the reporting period (2019 season) as a result of the new sugar marketing legislation. This legislation allows sugar cane suppliers to elect to have their 'grower economic interest' (GEI) portion of the sugar produced from their cane to be marketed and priced by a third party. The appropriate measures and systems were implemented during the period to allow those growers who elected to have their GEI portion marketed

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through a third party to continue to receive their cane payments appropriately. The Company's sugar marketing and sugar revenue processes were also updated accordingly with Queensland Commodity Services Pty Ltd continuing to market and conduct the pricing for the 'miller economic interest' (MEI) portion and the GEI portion for the growers who did not choose an alternative marketer.

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

Impact of Coronavirus

At the time of this report, the Company is not expecting COVID-19 (Coronavirus) to adversely affect its business operations. As the Company is in the business of manufacture, agribusiness and inputs to food manufacture, the Company has been determined to be an essential business and it expects to be able to continue to operate its business for the 2020 crushing season. The Company does not expect to be affected by the current or future government regulations in relation to its business operations. Measures have been taken by the Company to secure its critical supplies and staffing to ensure that operations will be able to be maintained into the future. Revenue sources and distribution channels are not expected to be significantly diminished due to the Coronavirus and the Company's financing arrangements are expected to be able to absorb potential short-term deficits.

Whilst the Company cannot fully predict the potential impact of the Coronavirus and how it may ultimately affect its workforce and its operations, the impact of COVID-19 is not expected to have a significant effect on the financial performance or financial position of the Company in the next financial year.

In the opinion of Directors, no other matter or circumstance has arisen in the interval between the end of the financial year 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.

Derivative financial positions

Since the end of the financial year, movements in the ICE No.11 Raw Sugar Futures prices and exchange rates have resulted in variances to the "mark-to-market" values reported in the financial statements.

As the Group has entered into sugar futures and options contracts, foreign exchange contracts, foreign currency options, and commodity swap transactions, unrealised gains or losses on these derivatives fluctuate over time in line with changes to futures prices and foreign exchange rates.

As at 29 February 2020, the financial accounts reported a net unrealised loss on sugar pricing derivatives of \$6.6 million. However, as at 12 May 2020, in anticipation of the Board meeting to approve these accounts, this amount would be calculated to be an unrealised gain of \$35.2 million, based on the quoted rates of the day for derivatives that are still outstanding and realised prices for derivatives that have been settled subsequent to year end. The change is mainly due to a reduction in the sugar futures prices, offset in part by movements in foreign exchange rates.

The opening position of \$6.6 million is made up of \$3.3 million Miller economic interest (MEI) and \$3.3 million Grower economic interest (GEI). The \$35.2 million is made up of MEI of \$17.7 million and GEI of \$17.5 million. The movement in the MEI affects the derivative hedging asset/liability and hedge reserve whereas the GEI affects the derivative hedging asset/liability and grower payables/receivables in the balance sheet.

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The nature of a hedging relationship means that the above movement in mark-to-market values is realised when the raw sugar sales related to these transactions are completed.

Going concern

Following the recapitalisation with Nordzucker AG and the renewal of bank financing facilities for a five year term, the Company has adequate funding capacity as detailed in note 28 of the financial statements associated with this report. Total unutilised financing facilities of \$113.128 million are available as at 29 February 2020. This will be primarily used to fund capital upgrades within the milling operations which are expected to increase the profitability of the Company, allowing for the repayment of debt and a reduction in its reliance on external funding in the future.

Future developments

The Board continues to explore opportunities and projects to advance the Company's core business through improvements in milling rate, recovery and reliability. Likely developments in the operations of the Company and the expected results in future financial years have not been included in this report as until any such development becomes a firm commercial proposal, untimely and early disclosure of such information is likely to result in unreasonable prejudice to the Company.

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

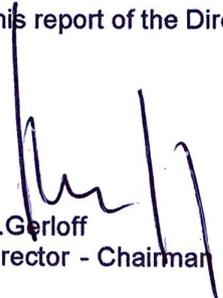
The Company has applied the relief available to it under Australian Securities and Investments Commission (ASIC) Instrument 2016/191 and accordingly, amounts in this report and associated financial statements have been rounded to the nearest thousand dollars where appropriate.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 54.

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



M. Gerloff
Director - Chairman



P.A. Manning
Director – Deputy Chairman

Date: 28 May 2020