

CHIEF EXECUTIVE OFFICER'S REPORT

THE ACQUISITION AND INTEGRATION OF THE MULGRAVE CENTRAL MILL HAS BEEN A MAJOR FOCUS OF THE YEAR AND HAS SIGNIFICANTLY STRENGTHENED MSF'S PRODUCTIVE CAPACITY AND ITS MANAGEMENT RESOURCES. THIS, COMBINED WITH INCREASING WORLD SUGAR PRICES AND A GOOD 2009 HARVEST, PUTS US IN A STRONG POSITION TO CONTINUE THE COMPANY'S EVOLUTION.

'INCREASING THE AREA UNDER CANE IN THE MARYBOROUGH REGION REMAINS ONE OF OUR KEY PRIORITIES IN ORDER NOT ONLY TO UNDERPIN THE SUSTAINABILITY OF OUR BUSINESS IN THAT REGION, BUT ALSO TO IMPROVE THE FINANCIAL PERFORMANCE OF THOSE ASSETS.'



The past twelve months have seen the Maryborough Sugar business change significantly with the successful acquisition of the Mulgrave Central Mill, which was completed in September 2008. This was our first significant investment outside of the Fraser Coast region since the company was listed on the ASX over 50 years ago. The acquisition is a key part of our strategic plan to grow Maryborough Sugar's presence in the Wet Tropics, a lower-cost sugar cane growing region. I am pleased to report that the integration of the Mulgrave business has gone very smoothly and I would like to thank Ray McDowall, the former CEO of Mulgrave (now retired), for his efforts in leading his team through the change process. The acquisition also called for the merging of the executive roles of the two companies, a process that resulted in Maryborough Sugar emerging with a stronger, more capable management team.

THE MULGRAVE ACQUISITION NOT ONLY DIVERSIFIED THE EARNINGS BASE OF THE MARYBOROUGH SUGAR BUSINESS AND PROVIDED A KEY GROWTH PLATFORM FOR THE FUTURE, BUT IT ALSO GAVE MARYBOROUGH SUGAR ACCESS TO MULGRAVE'S STRATEGICALLY IMPORTANT INTERNATIONAL SALES, MARKETING AND LOGISTICS EXPERTISE.

Since the acquisition, we have sought to build on the customer relationships that Mulgrave had successfully established since it broke away from the single desk export sales arrangement in 2006. These skills and expertise will no doubt play an important role as we continue to shape Maryborough Sugar into a low-cost, fully-integrated sugar company.

The effects of the poor weather that affected crop in the Maryborough region in the 2007 season continues to be felt. While the growing conditions for the 2008 crop returned to normal, the area under cane (which directly impacts the size of the crop that is available for harvesting) was significantly down on the long-term average for the region. This was a result of the local growers limiting their new plantings in response to a weak sugar price outlook at that time, to extremely high fertiliser prices and to some difficulties with availability of new planting material. In just a little over a year, we have now seen a strong rally in the sugar

price, a collapse in fertiliser prices and, while the 2009 harvest is not yet complete, we are expecting to see the Maryborough crop come in around 15% higher than the previous year.

Increasing the area under cane in the Maryborough region remains one of our key priorities in order not only to underpin the sustainability of our business in that region, but also to improve the financial performance of those assets. The 2010 season will benefit from record new plantings on company-owned farms as many of the recently acquired farms come into full production. It will also benefit from increased production from local growers as they respond to both the higher sugar price outlook and the significant planting incentives that we have introduced in order to promote the planting of new areas.

Over the past year, we have continued to strive for improved yields and productivity from our company-owned farms. New equipment, technology and irrigation systems coupled with new farming teams have created a major transformation in our farming practices.

THE 2009 SEASON WILL SEE A RECORD HARVEST FROM OUR FARMS, WITH THE 2010 HARVEST EXPECTED TO BE SIGNIFICANTLY LARGER AGAIN. WHILE WE CONTINUE TO LOOK FOR SUITABLE PROPERTIES TO ACQUIRE THAT WILL 'BOLT ON' TO OUR FARMING CLUSTERS OR 'HUBS', WE ARE PIONEERING A PROGRAM TO DIRECTLY LEASE SUITABLE FARMS IN THE REGION ON A LONG-TERM BASIS AND TO CONVERT THEM INTO CANE FARMS. THE RESPONSE TO DATE HAS BEEN VERY ENCOURAGING.

After more than a year of discussions with the board and management of Tully Sugar Limited, in August 2009, we announced our intention to bid for all of the issued shares in Tully by way of an all-scrip offer. This offer is consistent with our strategy of pursuing consolidation opportunities in the Wet Tropics region. If successful, it will not only transform the merged company into a more significant sugar company but it will also provide a vehicle to attract investment that ensures the long-term sustainability and growth of the sugar industry in the Tully region.

Two years ago, we set about creating a sugar-pricing and risk-management capability within Maryborough Sugar in order to manage the volatility in the world sugar price (a key driver of our earnings) more effectively. This capability is now relatively mature and it has enabled us to participate in the recent sugar price rally, as well as providing us with a more stable pricing platform on which to base our future investment decisions.

The rally in the world sugar price over the past twelve months appears to be soundly based on solid supply/demand fundamentals, caused largely by a suppression of the growth of the Brazilian sugar industry, due to an adverse movement of their currency, and by rationing of credit. India has also shifted from being a large sugar exporter to being a large sugar importer. The future direction of the world sugar price is always difficult to predict, however, with encouraging medium term fundamentals combined with our existing pricing positions, the outlook for Maryborough Sugar is positive.



Mike Barry
Chief executive officer