



**THE MARYBOROUGH  
SUGAR FACTORY LIMITED**

# **NORTHERN MILLING JOINT VENTURE UPDATE**

**July 2010**

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# Maryborough Sugar is a significant participant in the changing Australian sugar landscape

- The Australian sugar industry is changing
  - Australian sugar industry deregulation completed in 2006
  - Future ownership of Sucrogen (CSR Sugar) by Wilmar
  - Consolidation of the milling and growing sectors
  - Potential for significant other revenue streams in sugar mills – government policy changes in renewable energy
  - Change from short term price pooling to Individual longer term sugar price hedging
- Maryborough Sugar Factory (MSF) is a significant participant in the change
  - Merging of Maryborough Sugar Factory and Mulgrave Central Mill in August 2008
  - Announced a bid for Tully Sugar Limited which lapsed in April 2010
  - Announced the agreement to form a milling Joint Venture between MSF and Bundaberg Sugar (BSL) in Far North Queensland in April 2010
  - Northern Milling Joint Venture agreement completed in July 2010, including an option to acquire the BSL mills

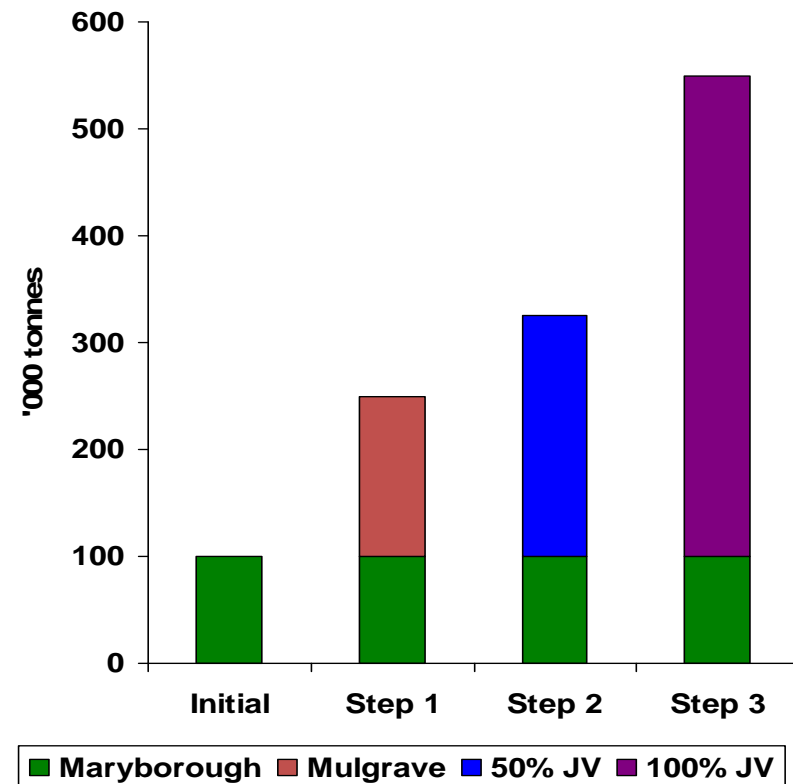
The changes will create a long term sustainable sugar industry in the major economic growth region of the Asia/Pacific



## The JV is a company changing transaction for MSF

- MSF is consolidating milling businesses in Australia to create a low cost, sustainable milling operation
  - Step 1 – Merged with Mulgrave Mill (250k raw sugar)
  - Step 2 – Creation of the Northern Milling JV (325k raw sugar)
  - Step 3 – Purchase BSL share of the Northern Milling JV (550k raw sugar)
- MSF will have full raw sugar marketing rights from the commencement of the 2014 season
  - 250k 2012 season
  - 325k 2013 season
  - 550k 2014 season – providing exercise the JV option
- Provide increased future growth opportunities in renewable energy

### Raw Sugar Production

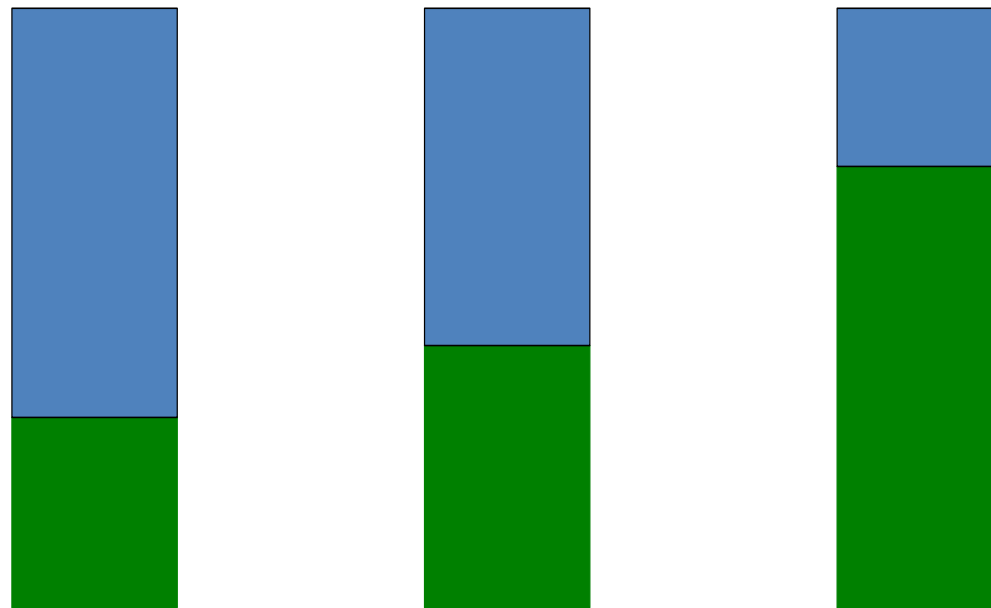


Source: MSF Management



# Moving MSF from capital growth assets to higher free cash generating assets

Asset Value



Before

JV

100% JV ownership

■ Mills ■ Non-mill

- Mills provide a higher EBITDA at current sugar prices than our non-mill investments

- MSF will raise funds to exercise the option from non-milling asset sales

Source: MSF Management



# The Northern Milling Joint Venture is a production sharing arrangement

- 50:50 Joint Venture with BSL and MSF North Queensland milling assets
  - MSF will contribute Mulgrave Mill and associated cane rail network and rolling stock
  - BSL will contribute Babinda, Tableland and South Johnstone Mills and associated cane rail network and rolling stock
- The assets are to be licensed by MSF and BSL to a JV operating company
  - The assets are not owned by the JV operating company
  - The assets are to be free of any encumbrances
  - JV Executive Committee to manage the JV
  - Experienced sugar industry commercial and operating executives from both MSF and BSL
- Costs and production are to be shared equally
  - The major costs are cane purchase, mills and cane railway operations.
  - Agreement in place between MSF and BSL to reflect any price hedging undertaken by cane suppliers
  - The JV operating company will make weekly cash calls to MSF and BSL
  - Each participant will market their share of raw sugar production
  - The JV will market molasses, electricity and other products and provide the proceeds back to each participant
- The JV is to commence at the end of crushing this year
  - Expected to be on, or about, 1<sup>st</sup> December 2010

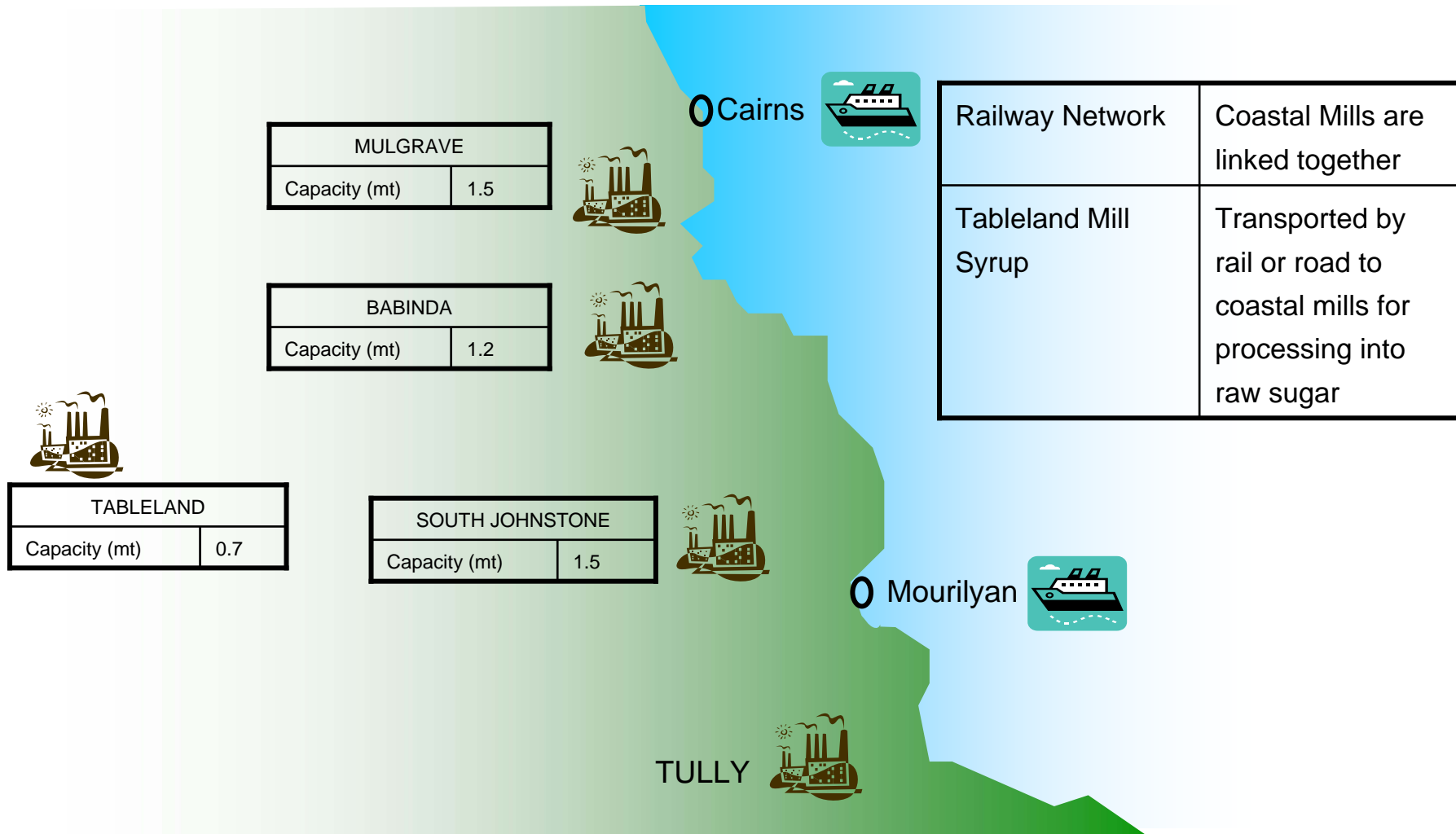


## MSF has the option to acquire BSL share of the JV for an additional \$50 million

- MSF have paid \$20 million to BSL for a call option to buy their share of the JV
  - MSF has paid for the option from existing cash on hand
  - BSL have no call option over MSF share of the JV
  - The option period is 1<sup>st</sup> December 2010 to 29<sup>th</sup> February 2012
- The value of BSL's share of the JV is \$70 million
  - The option payment is part of the consideration. Therefore need to pay an additional \$50 million on the exercising of the option
- MSF have a first right of refusal option to buy BSL's North Queensland farms
  - No firm price has been agreed but will be subject to independent valuation
- The JV is indefinite, unless
  - MSF exercise the option, or
  - MSF or BSL wish to exit the JV. It cannot happen until the 3<sup>rd</sup> anniversary. It will happen by either the other party buying out the other, a trade sale or IPO for the complete Northern Milling business



# The Northern Milling Joint Venture – location of the assets





## The key assets and production of the Northern Milling JV

Mill	Capacity - Cane crushed	Current Utilisation - Cane crushed	Raw Sugar Production	450,000 tonnes
Mulgrave	1.5 m tonnes	1.1 m tonnes	Molasses	110,000 tonnes
Tableland	0.7 m tonnes	0.6 m tonnes	Electricity Sold	40 GW per year
Babinda	1.2 m tonnes	0.7 m tonnes	Cane Railway	600 km of rail line
South Johnstone	1.5 m tonnes	1.2 m tonnes	Number of Employees	Approximately 590 employees (permanent and seasonal)
<b>Total</b>	<b>4.9 m tonnes</b>	<b>3.6 m tonnes</b>		

Source: MSF Management



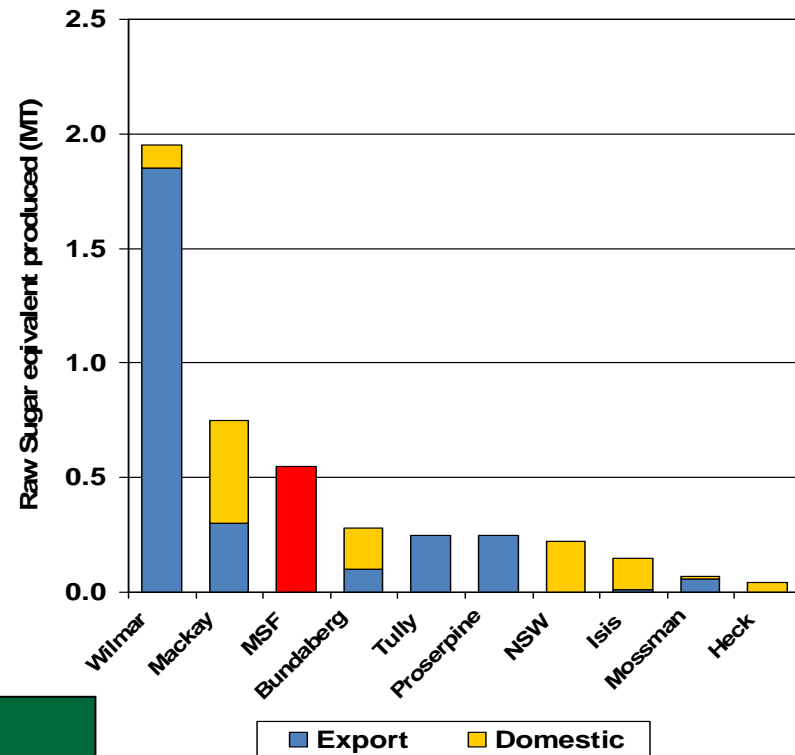
## The rationale for the JV is compelling for MSF

- Increases our raw sugar production capability
- Enable synergies to be extracted from a contiguous growing regions in North Queensland
- Provides MSF optionality around the timing of when to exercise the option to acquire the BSL share of the JV
- Consistent with our strategy of increasing our production in low cost regions – lower our cost of production
- Increases our importance in the growing Asian sugar market where the supply deficit is forecast to grow
- The sugar market fundamentals are forecast to remain positive, particularly in the Asian region



# Upon exercising the option, MSF will be 6% of East Asian raw sugar trade

- MSF will be the **third** largest producer and **second** largest exporter in Australia
- Is the only Australian sugar miller with direct export customer relationships
  - Left the Australian single desk marketer in 2008 (Mulgrave Mill left in 2006)
  - Expertise in direct dealings with customers and financiers
  - Strategic supplier of raw sugar to customers in East Asia
  - Experience in both the domestic and export markets
  - Will be similar in size with our raw sugar business into East Asia as raw sugar competitors such as Cargill and Dreyfus
  - We will be 6% of the East Asian trade of raw sugar



Source : MSF Management

MSF will be the only Australian listed sugar company post the Wilmar acquisition of Sucrogen

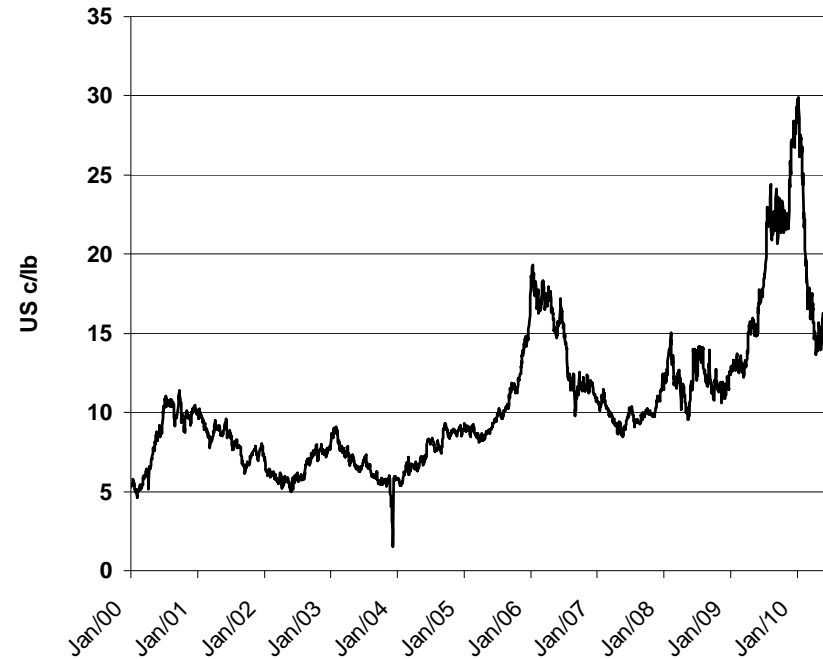


# The world trade of sugar is concentrated into a few hands

- The price of raw sugar is mainly influenced by the view of production in Brazil and India – provides volatility and opportunity for MSF to hedge at higher prices
- India oscillates between being an importer and exporter

Country	Production	Exports	Imports
Brazil	41,275	28,340	
India	25,800	20	1,940
EU (27)	15,595	1,295	3,450
China	13,550	110	1,985
Thailand	7,525	4,690	
USA	7,450	150	2,440
Australia	4,850	3,625	10
Russia	4,410	180	2,085
Pakistan	3,500	110	1,045
Indonesia	2,890		2,645
<b>World</b>	<b>170,167</b>	<b>52,000</b>	<b>52,000</b>

## World Traded Raw Sugar Price



Source: ICE No11

Source: Kingsman

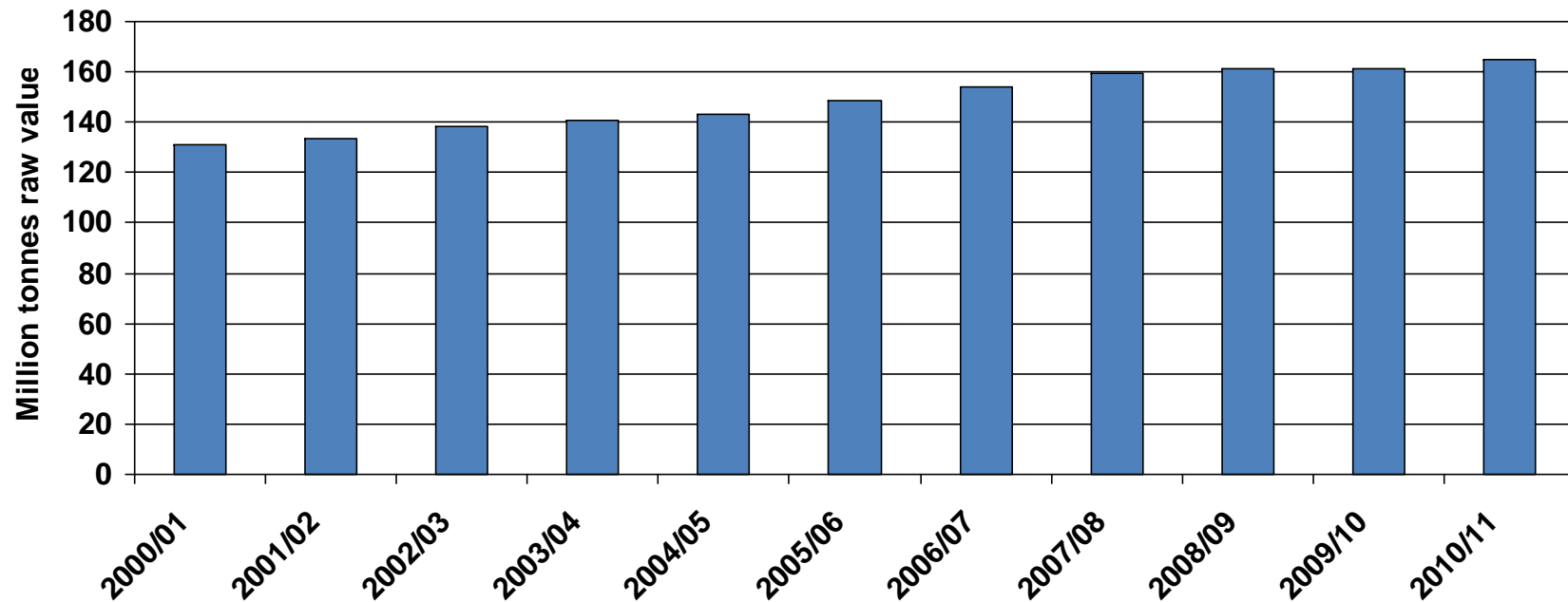




## Demand for sugar worldwide is growing

- Demand for sugar is growing at around 2% per annum (nearly 3 million tonnes)

### World Sugar Consumption



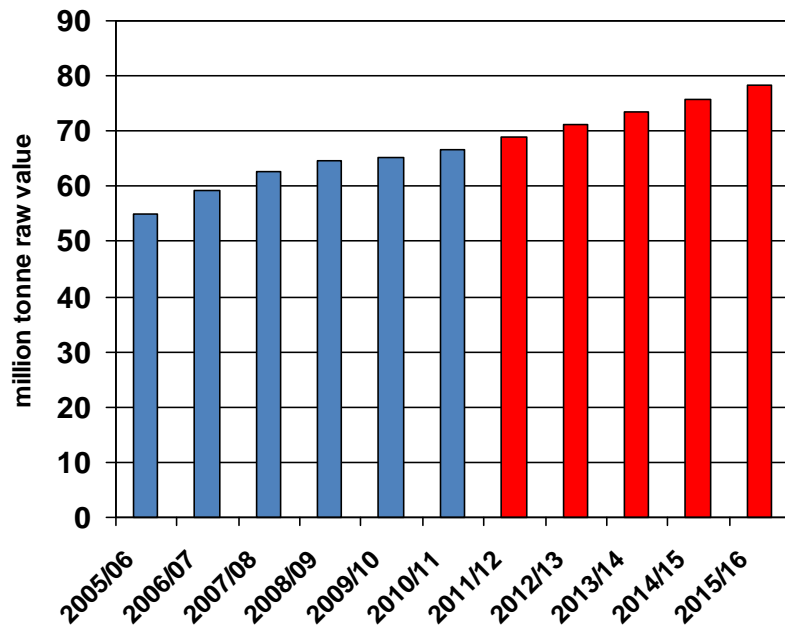
Source: Kingsman



# Demand for sugar in Asia is leading world growth

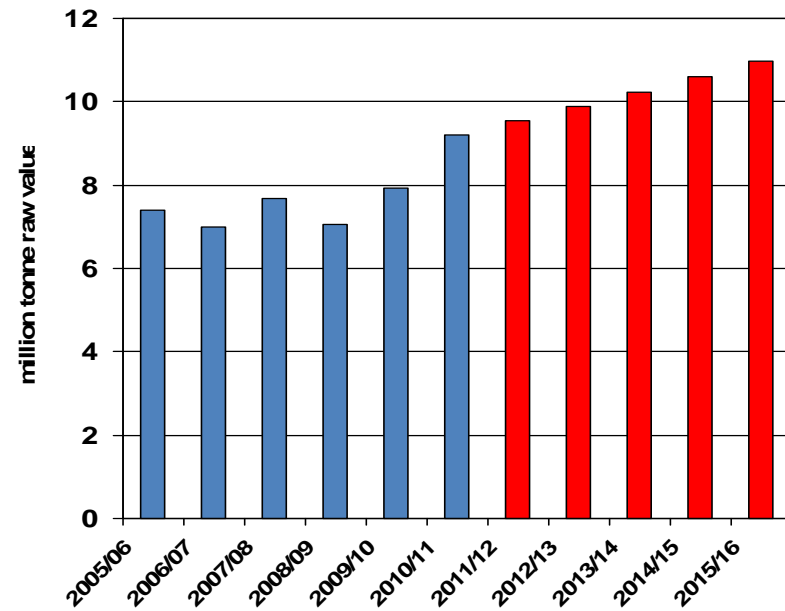
- Demand for sugar in Asia is growing at over 3% per annum (nearly 2 million tonnes)
- China demand growth will not be met with internal production growth – now a structural importer
- India demand nearly reached maximum production potential – demand growing at >0.7 million tonnes per annum

## Asian Sugar Consumption



Source: Kingsman, MSF management

## East Asian Raw Sugar Imports



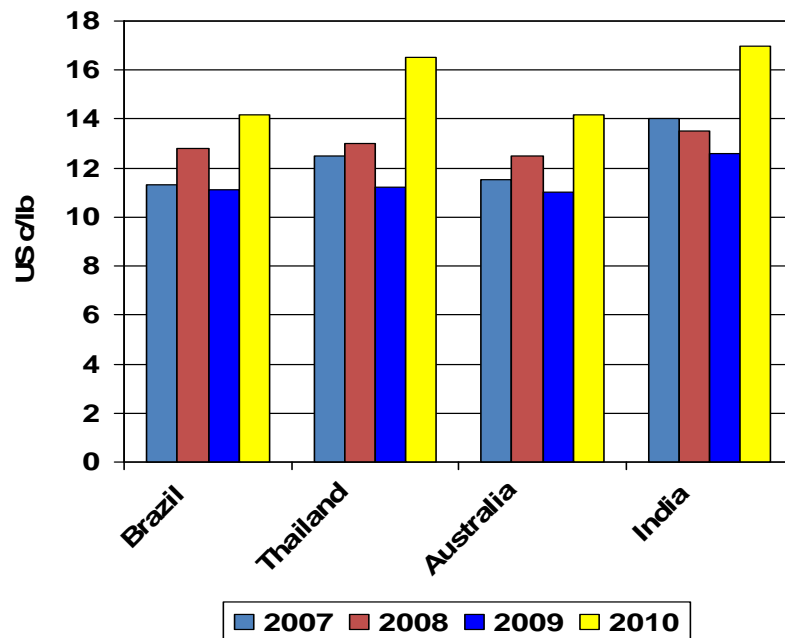
Source: Kingsman, MSF management



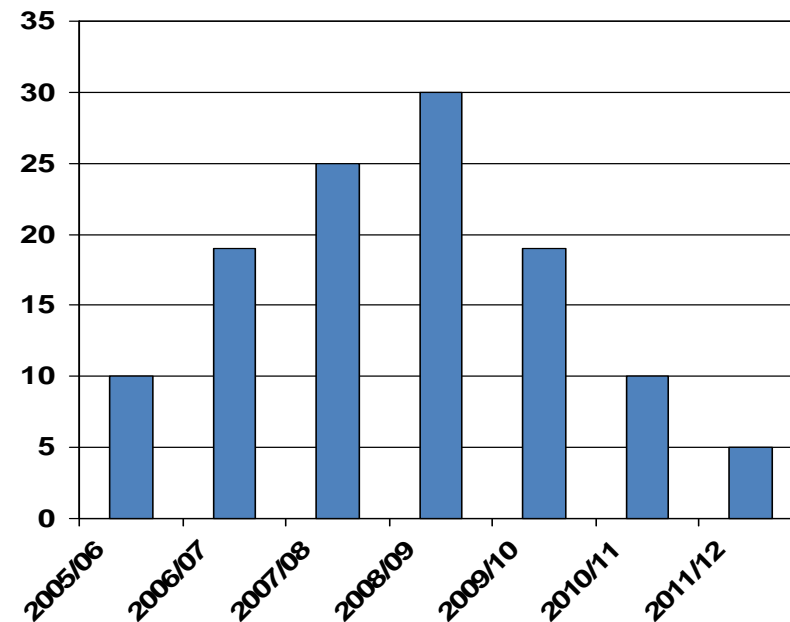
# The rapid supply growth of the last 10 years is unlikely to be repeated in the next 10

- Brazil has been the key to production growth for the last 10 years
- Prices need to be above current levels to attract new mill investment

## Raw Sugar Cost of Production



## New Sugar Mills in Brazil



Source: Kingsman

Source : UNICA

## This is a company changing transaction

- It is consistent with our strategy to reduce our cost of production and increase our raw sugar production by expanding in low cost production regions
- Moving the company from capital growth assets to higher free cash flow generating assets
- The JV provides MSF with a valuable option to acquire our JV partner's northern milling assets, further reducing our cost of production and increasing our production of raw sugar
- World sugar fundamentals are positive, especially in Asia
- Upon exercising the option, MSF will become 6% of the raw sugar trade in East Asia

