Proserpine Cooperative Sugar Milling Association Limited

Seventy Seventh Annual Report
Year ended 29th February 2008

Proserpine Cooperative Sugar
Milling Association Limited

Mission Statement

- Our organisation believes that the key to its progressive viability is to encourage the highest commitment to achieving world's best practice across our total business.
- We believe in enhancing the wealth of our organisation through value adding.
- We strive to be an asset to the community in which we live and operate by lending our support to the needs of the community.
- Our aim is to build mutual respect, confidence and trust based on commitments to competence, openness, honesty and integrity, being ever mindful of the Members' rights and responsibilities.
- Our aims are best achieved in an atmosphere wherein personal and corporate goals can be mutually obtained.
- We are committed to considering workplace health and safety and the environment as a first priority in all of our operations and decision making processed.

Board Members

Luigi James (Lou) Raiteri	Chairman

John David Mau	Deputy Chairman
Russell William Biggs	Director
Mark Alfred Blair	Director
Gary William Considine	Director
Anthony Joseph (Tony) Large	Director
Geoffrey Valmadre	Director

Management Team

Chris Connors	General Manager
Ian McBean	Company Secretary
Mick Wesener	Factory Manager
Laurie Watson	Chief Chemist / Furfural Manager
Amanda Hadlow	Financial Controller
Steve Ischenko	Chief Electrical Engineer
Ron Worth	Cane Supply Manager
Neil Cawthorne	Treasurer
John Ievers	Human Resources Manager
Jasmin Davis	Workplace Health & Safety Team Leader
Robert Tawse	Manager Materials
Peter Moore	IT Manager
Laura Fontaine	Environmental Manager

Registered Office

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Auditors

C E Smith & Co. Proserpine
Proserpine Qld 4800

Bankers

Westpac Banking Corporation
Proserpine Qld 4800

Solicitors

Macrossan & Amiet
Mackay Qld 4740

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GLOSSARY

5R	–	Reduce, Respect, Reuse, Report, Retain
5S	–	Housekeeping Methodology, part of TRACC suite
ASSCT	–	Australian Society of Sugar Cane Technologists
AASB	–	Australian Accounting Standards Board
AGAAP	–	Australian Generally Accepted Accounting Principles
AIFRS	–	Australian International Financial Reporting Standards
ASMC	–	Australian Sugar Milling Council
BCSE	–	Business Council for Sustainable Energy
CRSG	–	Central Region Sugar Group
CCS	–	Commercial Cane Sugar
COGS	–	Cost of Goods Sold
CPA	–	Cane Production Area
CSIRO SE	–	Commonwealth Scientific and Industrial Research Organisation Sustainable Ecosystem
DAFF	–	Department of Agriculture, Forestry and Fisheries
DPI&F	–	Department of Primary Industries & Fisheries
EBA	–	Enterprise Bargaining Agreement
EDTA	–	Ethylenediaminetetraacetic Acid
EEO	–	Energy Efficiency Opportunities
EPA	–	Environmental Protection Agency
FPIP	–	Farm Performance Improvement Program
GPP	–	Grower Positioning Program
GWh	–	Gigawatt Hours
IDAS	–	Integrated Development Assessment System
IEMS	–	Integrated Environmental Management System
IFRS	–	International Financial Reporting Standards
IOG	–	Industry Oversight Group
IPA	–	Integrated Planning Act
IPS	–	International Pol Scale
LTI	–	Lost Time Injury
IT	–	Information Technology
MIS	–	Managed Investments Schemes
MRET	–	Mandatory Renewable Energy Target
MWh	–	Megawatt Hours
NEPM	–	National Environment Protection Measure Variation
NIR	–	Near-Infrared Spectroscopy
NPI	–	National Pollutant Inventory
QDP	–	Queensland Discretionary Pool
QRMC	–	Queensland Risk Management Consultants
QSL	–	Queensland Sugar Limited
QUT	–	Queensland University of Technology
R & D	–	Research & Development
RAG	–	Regional Advisory Group
RD&E	–	Research Development & Extension
REC	–	Renewable Energy Certificate
SMPS	–	Supplier Managed Pricing System
SRDC	–	Sugar Research and Development Corporation
SRL	–	Sugar Research Limited
SSP	–	Sugar Services Proserpine
STL	–	Sugar Terminals Limited
TRACC	–	Best Practice Management System
VRET	–	Victorian Renewable Energy Target

Overview

Sugar Production

- **Cane Harvested – ↓11.66% on last year**

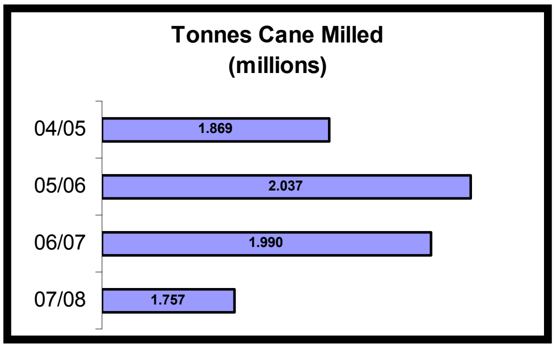
Our throughput was 1,757,487 tonnes of cane for the 2007 season. This was our worst result since the 2002 season although fairly comparable to the 2004 season. Significant cuts in water allocation coupled with a dry year were the major factors for this result.

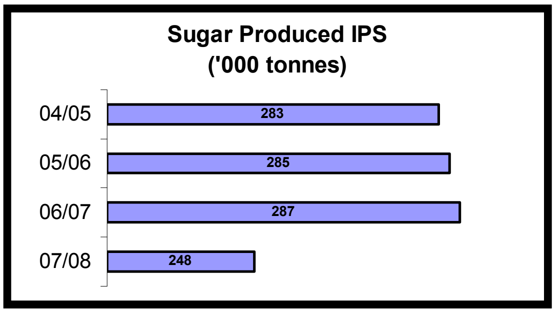
- **Sugar Content – ↓ 2.77% on last year**

CCS decreased to 13.69 for the 2007 season from 14.03 in the 2006 season.

- **Sugar Production IPS – decreased on last year**

A lower crop for the year and a lower CCS determined a lower sugar make for the year. Factory efficiencies (Pool Index) were also slightly under target for the year.





Financial Performance

- **Total Income –↑ 18.09% on last year**

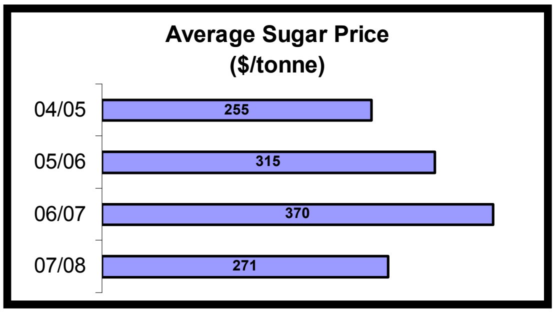
The total rise amounted to approx $8.89 million. The Cooperative crystallized their sugar positions for the 2008 to 2010 seasons which added an additional $12.946 million to total revenue. Sugar sales for the 2007 season was approx $5 million less than the 2006 season.

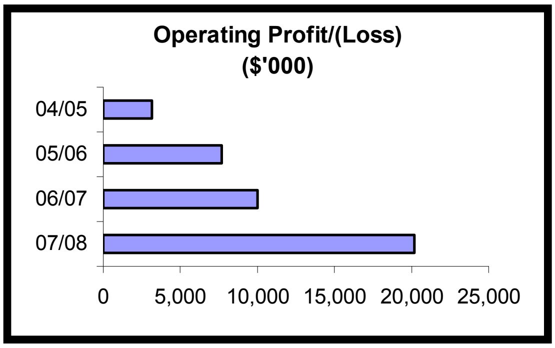
- **Operating Profit – $20,176,106**

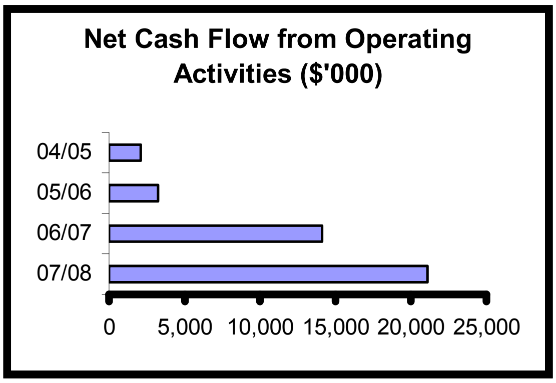
The year was extremely successful due to the decision to crystallize the sugar positions. Electricity income has produced our best ever result and interest from investments increased. Total operating expenses dropped as a result of a shorter season length and a drop in depreciation arising from our revaluation of assets which occurred last financial year.

- **Cash Flow from Operating Activities**

The operations generated a significant cash contribution which was utilized in the main to increase our non current asset values for land, licences and patents and our capital works in progress.







Future Prospects

- The Cooperative is budgeting on an increased crop for the 2008 season. This, together with a more optimistic sugar market, should ensure that we have a strong financial position for the forthcoming financial year.

Chairman's Comments

I am pleased to present the 77th Annual Report for Proserpine Cooperative Sugar Milling Association Limited.

Season Performance

The crop for the season was disappointing with a gradual falling away from the original estimate of 1,900,000 tonnes of cane to a final tonnage of 1,757,471. The CCS for the year was 13.69. The factory performed exceptionally well and the crop was crushed in a little over seventeen weeks. Climatic conditions favoured floc and as a consequence we were unable to attain quality premiums for much of the sugar produced.

The very good sugar prices we saw in late 2005 and early 2006 prompted a massive production response particularly from India and Brazil and sugar prices dropped sharply. The Queensland Sugar Seasonal Pool price for 2007 is expected to be $271 per tonne – a significant drop on the previous year.

The voluntary marketing arrangements were introduced in late 2005 but it has taken some time for systems to be put in place that allowed growers, through their mills, to be able to be involved in forward pricing. The Queensland Sugar Seasonal Pool, which is where the majority of sugar is priced, has policies which restrict pricing to the current year. During 2007 QSL introduced a number of new pricing initiatives which will give members an opportunity to participate in forward markets outside of the Seasonal Pool when they are stronger as they were in 2005/6 and early 2008.

Following the disappointing performance in 2006 associated with the upgrade of the feeding station, a concerted effort was made during the 2007 maintenance season to overcome the identified issues. As a result the lost time was down 55% on the previous year, crushing targets were reached and we achieved a new record weekly throughput.

The Board is pleased to recommend a surplus distribution of $2.63 million based on the strong performance of the Cooperative. I would note that the Board has made its assessment of the funds available for surplus based on the normal operations of the Cooperative and have retained the crystallised sugar futures attributable to 2008-2010 for future years. The Board also recognises the heavy call on the Cooperative's capital with the significant value adding projects being undertaken.

Pricing & QSL Management

During the month of February, the sugar price rose to encouraging levels and many growers participated in the futures sugar pricing facilities available through the Cooperative and QSL for the years 2009 out to 2012.

This turn-around from uncertainty to opportunity certainly allows members who are aware of their production costs to stabilise income at a sustainable level and apply reasonably calculated budgets to support viability.

From day one our Cooperative has worked tirelessly with QSL management to develop flexible structures to allow these opportunities to be available to members, and we will continue to do so.

We have a strong commitment to QSL but do have concerns that the current structure and policies of QSL do not cater for the needs of the industry in a deregulated commercial environment. We believe that QSL must be restructured and allowed to operate in a manner free from the politics of the industry with a board and management that has the appropriate skills and independence to deliver the best outcomes on marketing, logistics and pricing for the industry as a whole. For as long as industry politics plays a part, that outcome must be in doubt. This position is supported by most suppliers and a process is underway to achieve this reform by the end of June.

Ian White, Managing Director and CEO of QSL left at the end of March to take up a position as President and CEO of the Canadian Wheat Board, one of the largest single marketers of wheat and barley in the world. The ex-CEO of Mackay Sugar, John Pollock has been appointed interim CEO of QSL and Chairman, Keith De Lacy will move to Executive Chairman. This will ensure a stable management platform within QSL whilst the necessary changes are being developed and implemented. Once finalised, a permanent appointment will be made.

Business Plan

Proserpine Sugar has a comprehensive business plan that forms the basis of our strategic direction and financial forecasts. This was reviewed in February 2008. The business plan and the Management Action Plan which forms part of it, are structured across fourteen themes, these being: Business Planning; Cane; Cane Transport; Communication; Community; Value Adding; Environment; Factory; Finance, IT & Administration; Human Resources; Industry Matters; Safety; Product Quality; and Training.

Critical success factors and key business risks have been identified and priority goals for the next five years have been set. This is an excellent living document for the Board and management with actions for the goals, staff involved, time lines, incremental resourcing (people, IT and capital) and outcomes clearly defined. The Mission Statement has also been reviewed and suitable alterations made which are more in line with the present operations and aims of our Cooperative.

Value Adding

Furfural

Since approval of the project in August 2006, work has been progressing with the installation of the plant under WDT Engineers as main supplier and project manager.

Other contractors on the project include HMG Westhill supplying the bagasse dryer, AIMTEK supplying the digestor feed system and digestor doors, iPower supplying the electrical and process control, Stebbins supplying the digestor brick lining and MHTT (South Africa) supplying the digestor condensers and the distillation plant.

The heavy rain early in 2008 caused some delays and subsequent cost increases. Whilst we are expecting that the costs of construction will be over budget some of this has been offset by securing additional funds above the original budget from the R&D Start Grant. The total contribution by Government from the R&D Start Grant and RCP Grant will be $14.8 million.

Commissioning of the plant prior to the 2008 crushing season will not be possible and as a result production of furfural is now planned to commence in September. A nominal furfural production of 500 tonnes has been factored into the 2008 season financial profile so as not to set an unrealistic target. After discussions with representatives of DAFF, it has been agreed that most of the $12 million grant will be paid this financial year, with very little to be subject to the final report being received in May 2009.

The Board decided to take an opportunity to secure the patents for the SupraYield technology when it became available during 2007 for $1.7 million. The securing of the patents gave considerable support in securing the additional $1.6 million in R&D start grant for the project and ensured that the technology was not controlled by a competing party. We have a number of parties who are showing strong interest in developing plants using the technology.

A paper by Laurie Watson and Chris Connors titled "Furfural – A Value Adding Opportunity for the Australian Sugar Industry" has been accepted for inclusion in this year's ASSCT Conference in Townsville.

Nature Plus

Development approval for the Nature Plus project was received from the Whitsunday Shire Council in December. Tender documents are being prepared for construction of the slip lane on Lascelles Avenue. Wet conditions have significantly delayed operations and we would not expect work to commence for some time. Equipment for the first stage of the watering system has been ordered. Investigations into electrical power requirements and availability have commenced. Prior to the end of 2007 26,000 cubic metres of old cane was forage harvested at Gibson Creek for use in Nature Plus.

A large sample of Nature Plus is close to completion and will be screened and bagged for shipment as soon as possible. Discussions are being held with other mills to assist with the product demand and these are being met with enthusiasm. The Cooperative has a royalty agreement with Global Earth Solutions which will mean that the Cooperative will receive an additional income stream for all soil conditioner supplied into the identified markets through Global Earth.

Chairman's Comments

Gibson Creek
Following the call for expressions of interest and a tour of the property, proposals for the development of the property for cane production are being considered by the Board.

Industry Viability and Sustainability
Proserpine Sugar is still focused on the commitment that was made to the Federal government through the Mackay Regional Advisory Group's business plan 2005 – 2007 "Meeting the Challenge". It has to be remembered that the undertakings contained in this document enabled the sustainability grant monies to be paid to growers and millers. To date the Federal Government has paid out over $300 million to growers and millers under the Sugar Industry Reform Program on the basis that the commitments made would be honoured. The Proserpine Sugar Industry has received its share with Growers and the Cooperative receiving significant funds from the Sustainability, Business Planning and Re-establishment elements of the Program. The Cooperative's furfural project has been supported with a grant of $12 million under the Regional Communities Projects element of the Program.

The Federal Government has made it clear that the sugar industry must reform without further government assistance. The Board has made it a priority in their planning to make the Cooperative viable and sustainable without government assistance, so it can achieve a strong stand alone position going forward. I emphasise the word Cooperative, because I feel we as members have a responsibility not only to ourselves but to every other member of the Cooperative to make it successful. We are clearly a people-centred business, all striving for a collective goal.

Members were faced with rising input costs (in particular fuel and fertilizer) and falling sugar prices during 2007 which put significant pressure on viability. Responding to requests from members, the Cooperative became involved in a number of initiatives intended to deliver reduced costs. These included an effort to import urea at significantly reduced costs; discounted dunder-based products; extension of the productivity loan scheme and the introduction of a soil analysis grant. The soil analysis program was well supported with 69 members having nutrient management plans completed – these cover 49% of the area under cane and demonstrate our commitment to best practice across the supply chain. Future opportunities in this area will be pursued by the Proserpine Productivity Committee.

Local Issues
During 2007 a number of concerns were raised on behalf of members. These issues are being dealt with in a cooperative manner jointly between the Cooperative's directors and Proserpine CANEGROWERS directors. A planned process to achieve appropriate outcomes has been developed to address the issues.

The emergence of plantation timber operators in our mill area poses a significant threat to the ongoing sustainability of the Cooperative and its members. The Cooperative and CANEGROWERS therefore submitted a joint submission to the Council's draft IPA Planning Scheme seeking to ensure that the use of good quality agricultural land for plantation timbers be impact assessable. This position also received significant support from the community, members and our employees. The draft plan is currently before the State Government's Department of Planning and Infrastructure, and by regulation no indication of what is contained in the Council's draft plan can be given until it is gazetted by government.

Renewable Energy
The Mill at present has a modest cogeneration capacity which this year delivered around $1.9 million in income. There are signs that all levels of government are taking the development of the renewable energy industry more seriously and this, along with greenhouse gas abatement programmes, has seen the sector recover considerably. The REC price has increased from $12 in 2006 to $43 in 2007.

The production of fibre has attracted considerable attention and management has achieved good efficiencies in the mill operations to date and is investigating further ways to increase the efficiencies. The extra fibre produced will play an important part of value adding opportunities.

Bursaries

The Mill awards three bursaries annually in recognition of outstanding academic achievement to students from the Proserpine State High School who have completed year 12 and have commenced tertiary studies. Recipients of the bursaries for 2007 were:

- Erin Cassells (Top Female Student) the Douglas Debney Memorial Bursary
- Denholm Brockley (Top Male Student) the George Telford Memorial Bursary
- Genesta Nicolson (Outstanding Results) the Dick Dray Bursary

Congratulations to the worthy recipients.

Dick Dray with Glynis Nicolson (mother of Genesta)

Acknowledgements

On behalf of the Board, I would like to extend our appreciation to the management, staff, employees, members and harvester owners for their efforts and commitment to our Cooperative. The assistance of Canegrowers Proserpine, ASMC, MRAG, SRI and BSES is also acknowledged

I would also like to thank my fellow Board Members for their support and valuable contribution during the season. I want to acknowledge the valuable contribution of Geoff Valmadre who this year has decided not to renominate after twenty fours years of service to the Cooperative. Geoff was elected to the Board in May 1984 and has been through many significant changes during that period including a major expansion in factory capacity and throughput increasing from less than a million tonnes of cane to in excess of two million tonnes. Geoff was an integral part of the more recent decisions to follow the value adding path, introduce grower pricing and set policies enabling the Cooperative to successfully undertake its own pricing. There have of course been plenty of rocky roads during his tenure, not the least being our venture into the tourism industry and the orange rust incursion. Throughout many of those trying times Geoff's resilience and steady hand were an important part of the success of the Cooperative's operation and he will be sorely missed.

Lou Raiteri
Chairman of Directors

General Manager's Comments

The Cooperative has delivered an excellent result for the 2007 season with the milling performance being consistently high throughout the year. We averaged well over 100,000 tonnes on a weekly basis. The bottom line shows a record profit of $20,176,106 million after a significant contribution from our forward hedging. The pricing that was undertaken in 2006 meant a much better outcome than would have been achieved if we had maintained all of our sugar within the QSL Seasonal Pool. The sugar market in 2007 was disappointing with prices falling as low as $230 per tonne. The overall result of the QSL Seasonal Pool is expected to be approximately $271 per tonne which was assisted by the rally which started in January 2008. QSL actively managed the March futures and rolled them out to May to take advantage of the rally.

We have continued with the yearly review of our business plans. The business plans are established around value adding, best practice management and continuous improvement. Whist we may not see the immediate impacts of some of these programs, we are confident that with a sustained commitment the plans will deliver the outcomes we are looking for. The review certainly emphasised the need to introduce opportunities for growers to participate in higher sugar pricing when it is available. Ensuring members receive a price for their cane that keeps them viable is critical to the success of the Cooperative.

Sugar Pricing

The Cooperative actively managed its price risk throughout the year. In October 2007 with sugar prices ranging between $240 and $250, based on the information available and after considering a number of alternatives, we crystallised our futures positions for 2008, 2009 and 2010 and brought close to $13 million back into our cash position. The funds have been identified as a separate income item in the Profit & Loss Statement.

The futures positions taken on the 2007 crop meant that rather than incurring a loss, the Cooperative was able to declare an operating profit of $7.2 million prior to the crystallisation income.

After crystallising our futures positions we allocated 50,000 tonnes of sugar on behalf of the Cooperative into the QSL Aggressive Pool and again entered the market for 2009 – 2012 and have priced in a range between $330 and $430 and have steadily built up our holding in a volatile but rising market.

Through our pricing policy, we are targeting prices which will ensure our bottom line profits for the next five years. This is an important move given the significant capital we are directing into our value adding projects. Average prices secured at the end of February were below the rising spot prices but will deliver bottom line profits. In the volatile market at the time of writing we are in fact ahead of the market with prices between 13 & 14 cents a pound. There is no doubt that the volatility will deliver significant variations in the bottom and the top of the market. A rising market will deliver further opportunities for the Cooperative to average up the hedges undertaken.

Our policy is to build our futures positions to eliminate the significant risk of the extremely low sugar prices that we have experienced in the last five years. Our approach would be considered conservative.

The facilities that we have in place with QSL, CBA and UBS do not have margin calls and we are therefore not subject to the significant cash calls that come about in the type of market we are now exposed to.

The market is extremely difficult to understand and the volatility is exceptional. The underlying fundamentals still indicate a significant oversupply and our advisers are indicating that 2008 may well be another surplus production year with production exceeding consumption by three million tonnes thus increasing stock levels. Analysts however advise that the market is being well supported by the perception amongst investment funds that the sweetener is undervalued and has room for prices to increase. The analysts also feel that sugar supplies may be reduced by the growing appetite for alternate fuels like cane-derived ethanol.

Grower Pricing

The Cooperative has been extremely active in promoting systems that allow members to make their own decisions about sugar prices. The introduction of the QSL Target Pool, the QSL Aggressive Pool and the Cooperative's own Cash Pool has been well supported by Members. The aggressive pool saw seventy Members commit tonnage for the 2008 season. The Target Pool has been creating a lot of interest and activity. Members set targets for 2008 – 2012 in a very broad range from $330 to $440 and for the most part have achieved their targeted pricing outcomes. To date 145 growers have participated in the alternative pricing programs since these were offered to members last year.

The pricing systems allow members to make assessments against their own farming budgets and then target outcomes that will deliver acceptable financial returns for their business.

Setting the targets is always a difficult task and it is important to understand what the delivered outcome will be. It is also important to recognise that in a volatile market there will always be times when the target achieved will be below the spot prices available. This was the case at the end of February where in a rising market those Members who were active earlier have not achieved the same pricing levels as those who had waited. The converse however also applies where in volatile markets prices can fall away very dramatically and prices available will be lower and in some cases below acceptable levels.

Members are reminded that the decision to set targets was made with specific outcomes in mind and in achieving those outcomes their business should be secured.

The Board has considered introducing a Proserpine Pool in which members participate in the pricing undertaken by the Cooperative. Given the significant activity within the other pools we have determined that it may be better to allow members to make their own decisions. It was also recognised that members will have different profiles of risk to that of the Cooperative and accordingly our policies and outcomes would not meet the needs of the individual member.

In the current market the Cooperative has taken a very conservative view and entered the market early to ensure pricing to secure the cash flows for the next five years. Whilst there have been some members who took a similar approach there were many others who were far more aggressive.

We have therefore determined that the systems currently available give the members ample opportunity and flexibility to undertake their own price risk management and therefore will not be progressing with a Proserpine Pool.

Cogeneration and Renewable Energy

The Federal Government has promised a 20% renewable energy target for 2020 that will effectively expand the MRET target from 9,500 GWh to 45,000 GWh. The details, including "grandfathering" of existing or partially completed projects under the parallel Victorian VRET and NSW NRET schemes, will be complex and difficult to work through. It is hoped that the revitalised scheme will provide sufficient investor confidence to enable new projects to become viable.

From the end of 2006, when Renewable Energy Certificate (REC) prices were around $17, REC prices have recovered, reaching a record high of $47 in mid-December 2007. Future trading has been bullish with prices for the calendar year 2011 approaching the tax effective penalty level of $57. As a consequence we have reinvigorated cogeneration projects which were mothballed with the fall in energy prices in 2005. Studies will be undertaken to determine whether full feasibility studies should be undertaken with the new pricing regime.

Business Plan

The Management and Board of the Cooperative have been actively managing the business plan for the Cooperative. A major review was undertaken in February with the business plan updated for the next five years.

As part of the planning workshop a review of the Cooperative's Mission Statement was reviewed and the following statement was adopted by the Board.

- Our organisation believes that the key to its progressive viability is to encourage the highest commitment to achieving world's best practice across our total business.
- We believe in enhancing the wealth of our organisation through value adding.
- We strive to be an asset to the community in which we live and operate by lending our support to the needs of the community.
- Our aim is to build mutual respect, confidence and trust based on commitments to competence, openness, honesty and integrity, being ever mindful of the Members' rights and responsibilities.
- Our aims are best achieved in an atmosphere wherein personal and corporate goals can be mutually obtained.

GENERAL MANAGER'S COMMENTS

- We are committed to considering workplace health and safety and the environment as a first priority in all of our operations and decision making processes.

The Management Action Plan which supports our Mission Statement is structured across fourteen themes and was revised at the Annual Management Review Workshop.

Business Planning:	Plan to meet the current and future needs of our organisation.
Cane:	Implement systems that: • deliver best practice in the growing, harvesting and delivery of cane; • ensure sufficient cane production for the ongoing viability of the Cooperative
Cane Transport:	Provide a safe and efficient cane transport system
Communication:	Maintain an efficient and effective communications system with all stakeholders
Community:	Support the needs of the community
Value Adding:	Pursue value adding projects which complement our sugar manufacturing business and enhance member income
Environment:	Comply with all requirements of our licences and support the continued improvement of our environmental management
Factory:	Operate, maintain and develop the factory to deliver the optimum outputs
Finance, IT & Administration:	Provide a quality service based finance, IT, materials management and administration function to internal and external customers
Human Resources:	Provide an open and proactive service for the management and development of our staff and employees
Industry Matters:	Ensure that our Cooperative's goals and interests are considered in all industry matters
Safety:	Provide a safe working environment where management, employees, contractors, harvesting groups and site visitors work together in making safety the first priority
Product Quality:	Produce a product which will be highly accepted in the market place
Training:	Provide a structured training program in which corporate and personal goals can be mutually obtained

Priority goals for the next five years
The business plan established priority goals for the next five years based on the principle of enhancing the viability and sustainability of the Proserpine sugar industry through getting the best out of our core business whilst increasing complementary revenue streams. These are:

Being the best at our core business
1. Develop and encourage pricing options for the Cooperative and its members and actively manage price risk
2. Maintain an efficient marketing body that is commercially focused
3. Secure and grow cane supply – proactively work with growers to increase productivity and land under cane
4. Control costs – control variable costs and fixed costs
5. Enhance and retain human capital
6. Drive towards best practice management (manage change)

7. Manage business risks (safety, environment, financial, operational)
8. Effectively communicate with stakeholders (especially regarding change)

Diversify revenue streams to complement sugar business
1. 5,000 tonne furfural plant operational
2. Generate an income stream from composted by-products
3. Increase cogeneration and molasses revenue
4. Identify other products (including downstream products from furfural)

The Cooperative's number one priority is to **maintain and grow cane supply**
- This is a large mill with a considerable number of employees. Adequate cane supply is what currently enables the mill to spread its costs and keep it in business.
- Aside from world sugar price movements, recent history has shown what happens to the mill's profitability as cane volumes recede.
- Growers need adequate financial returns to keep them in the industry and to encourage the planting of more cane.
- New projects (including grower pricing) and value adding ultimately seek to do one thing - put more money in the pocket of Cooperative members to keep them in the industry and encourage them **to produce more cane**.

The business plan establishes actions to support the priority goals and is a road map forward in the successful future of the Cooperative.

Australian Sugar Industry Alliance
As part of its sugar industry reform program report to Government, the IOG recommended that the industry seek to establish a group which could represent the industry with one voice.

In a very positive move for the industry, the Australian Sugar Industry Alliance ("the Alliance") was formed. The focus of the Alliance is to promote and advance the development of a commercially vibrant, sustainable and self reliant raw sugar and sugarcane derived products industry.

The Alliance will be the conduit for the development and promotion of policy advancing the commercial development of the Australian sugar industry through engagement with government, industry, service providers, community and other stakeholders and providing leadership to advance sugar industry self-reliance, sustainability and viability.

The Australian Sugar Milling Council and Queensland Canegrowers are the founding members of the Alliance and provide the initial directors, secretariat services and financial resources. Going forward, the Board of the Alliance is expected to also include representatives from sugar industry regional bodies. The Central Region Sugar Group is in the process of being formalised and will expect to be a member and subsequently have representation on the future board of the Alliance.

The Alliance deserves the full support of the industry in establishing a bipartisan representative body promoting the interest of the industry as a whole.

Charitable Support
For the second year the Board has approved an allocation of $50,000 to the Charitable Donations Program and many of the local community organisations received grants of up to $5,000 for worthy community projects. This program can only be run when the Cooperative has positive financial returns.

GENERAL MANAGER'S COMMENTS

Acknowledgements

I wish to acknowledge the efforts of the Management Team. We have continued with a program that many would consider as almost insurmountable. The zeal in which all have approached the plans shows a real belief in the direction we are heading. The Management Team has been extremely active in supporting the continuous improvement systems we have introduced throughout our operations. We have a strong vision for the future of our Cooperative and there is a real commitment from the team to deliver.

The sugar industry is going through continuous change and the Board has had the foresight and understanding to recognise the opportunities and plan for the future, and their support of our team in their efforts to deliver is appreciated.

The management team recognises that members have placed their faith in the plan we have put together and we appreciate their support. We also accept that there are going to be occasions when that support is sorely tested and not everything is going to go to plan. Our Cooperative is recognised for its initiative and resilience and I am sure that we will continue to lead by example in this ever changing industry.

Chris Connors
General Manager

Employee of the Year

Project Officer Andrew Linneweber was a popular choice for the Employee of the Year award having received nominations from fellow workers in three different work areas. The Employee of the Year is selected based on application and work attitude.

General Manager's Comment

Andrew is an example of an employee who has not only contributed significant hours in the development of our business but shows the utmost faith in the changes we are introducing. He modestly accepted the award but thought that because he was on staff that he should not be eligible. It shows another facet of our operations that employees nominated Andrew even though he was a staff member. Andrew is a great example of the team attitude we are promoting and adopting at the Cooperative.

Season 2007 – Industry Report

Season 2007

The decline in area harvested in Queensland over the past ten years continued, down a further 7,500 hectares on 2006 resulting in the final crop processed of 31.95 million tonnes being down about 1.2 million tonnes on the 2006 season. Interestingly, the area harvested has now fallen back to about the total area harvested in Queensland during the early to mid 1990's, prior to the expansion of the industry that came off the back of a sustained period of profitable world sugar prices. Of concern is that the average cane yield for the State is about 10 tonnes per hectare less on average than was achieved through that same period. Also impacting negatively on the 2007 results were the severe drought conditions prevailing during the earlier part of the growth cycle in the southern cane growing areas and the damaging frosts that occurred during the crush.

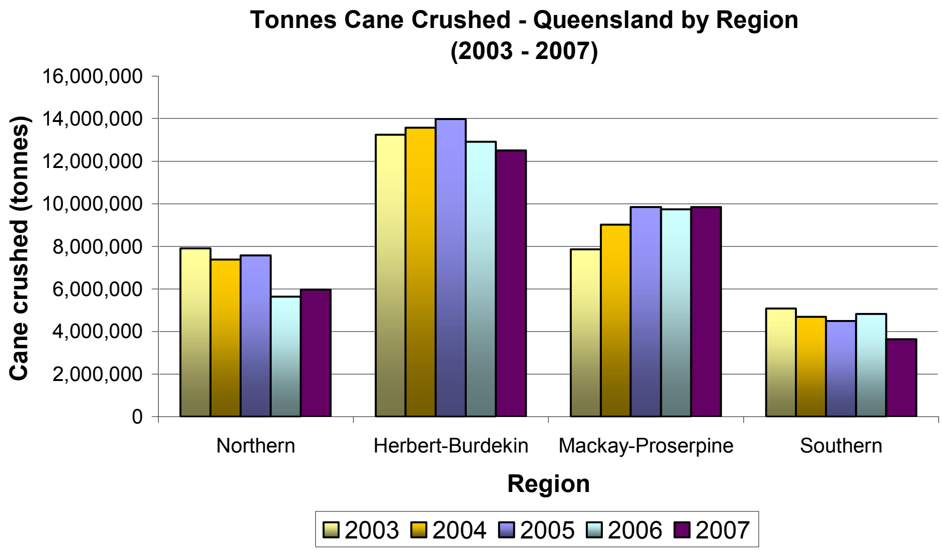
The area harvested was down by 1.7% and the cane crushed by 3.6% resulting in the tonnes of IPS sugar produced being reduced to 4.46 million tonnes (1.5% less than 2006) with a slight overall improvement in CCS across the State to 13.76 units compared to the 2006 figure of 13.44.

Area harvested in the Northern and Herbert/Burdekin regions shrunk by about 1,500 hectares in each area largely as a result of sugarcane land being lost to forestry managed investment schemes (MIS) in the Innisfail / Tully region and around Ingham. There was little change from last year in both the Burdekin and Central regions in terms of the area harvested but there was a significant reduction totalling almost 5,500 hectares in the Southern region largely as a result of the drought.

The Northern region crop improved slightly on the 2006 season but clearly was still impacted by the previous year's cyclone damage, being some one million tonnes down on the longer term average for this area. The Herbert-Burdekin region again suffered a decline in crop, down by more than 400,000 tonnes on 2006. The wet-weather induced late start to the season and subsequent late finish resulted in approximately 100,000 tonnes of cane being stood over to the 2008 season in the Burdekin. The Central region crop of 9.84 million tonnes remained consistent with recent seasons being up slightly on the 2006 crop and within 500 tonnes of the 2005 crop, although wet conditions at the end of the season meant that about 90,000 tonnes of cane has been stood over for harvest in 2008... The continuation of the severe drought in the Southern cane growing areas saw a reduction in area under cane and poor yields from non-irrigated areas. The widespread frosts during the harvest also contributed to a reduction in crop size with sizeable areas of planned two year cane having to be harvested this year because of the impact of the frost. The 3.629 million tonnes available for crushing represented the smallest crop in the past twenty years in South Queensland.

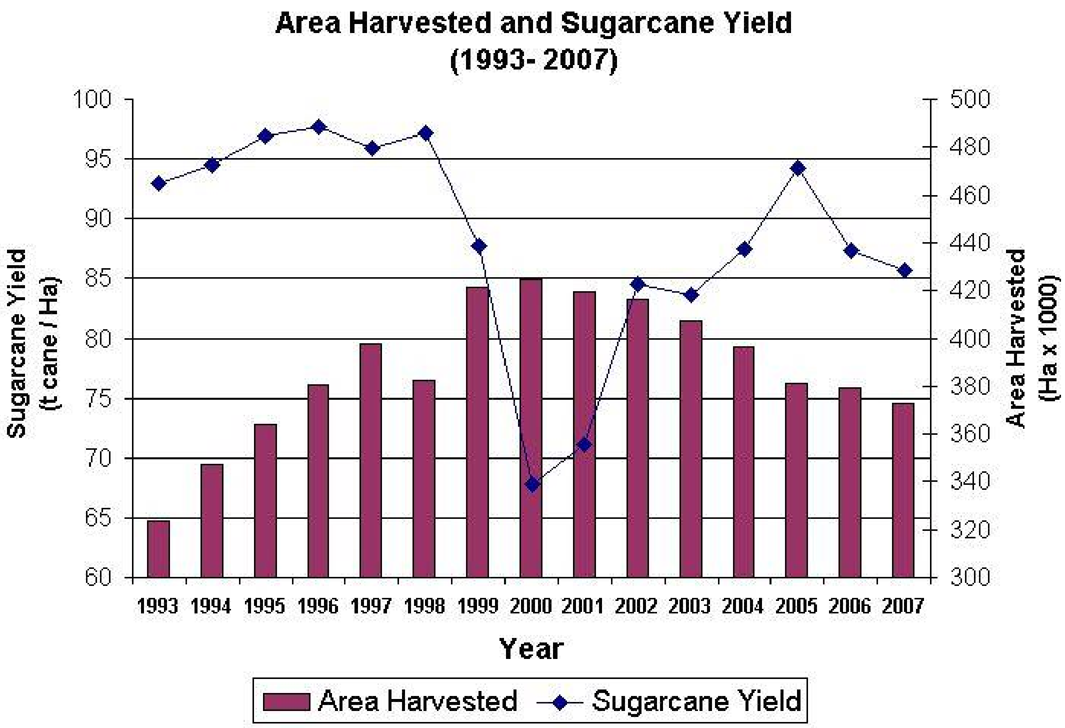
Figure 1 illustrates the tonnes of cane crushed in Queensland by region for the past five years and Figure 2 shows that area harvested and cane yield for the period 1993 to 2007.

Figure 1



Source: ASMC Statistics

Figure 2



Source: ASMC Statistics

Sugar Production
Sugar production in the North was up on the previous year by just over 171,000 tonnes with the CCS of 12.93 for the region up by more than a unit on the 2006 result. Tonnes of IPS sugar produced in the Herbert/Burdekin and Central regions were relatively unchanged from the previous year with production in Southern Queensland plunging by more than 186,000 tonnes.

Crop Conditions
Late autumn rains again disrupted the start of crush in many areas of the State with the Burdekin perhaps the most severely affected with the start of crush delayed by almost a month. In addition, rain caused some significant disruptions to the harvest in most areas during September and October with two of the State's mills not crushing for more than a week at one stage.

New South Wales
The New South Wales crop of 2.225 million tonnes producing just over 236,000 tonnes of sugar was down on the record 2006 crop by about 400,000 tonnes. The crush in New South Wales was hampered by bad frosts and wet weather with the Broadwater factory remaining open until the 18th of January to process as much cane as possible.

Western Australia
Sadly, the 2007 crushing season would appear to have finally brought the curtain down on the Western Australian sugar industry based in the Ord River irrigation area. The industry had been in decline for some years after having been devastated by a sugarcane smut incursion in 1998. The definitive step towards the shut-down of the industry came early in 2007 with the announcement by Cheil Jedang, the Korean owners of the mill that they were intending to dismantle the mill and move it to Indonesia leaving the 2007 crop uncrushed. Extensive negotiations followed over a number of months until finally (with the assistance of the Western Australian Government) the remaining growers purchased the mill for $4 million in order to process this year's crop of 333,811 tonnes of cane. Sugar production was just short of 37,500 tonnes. An additional 47,000 tonnes of cane was unable to be crushed and was destroyed.

Sugar Cane Smut Incursion
In February 2007 Dr David Watson delivered his report entitled "The Economic Impact of Sugarcane Smut on the Queensland Sugarcane Industry" to the Queensland Government.

The report contained a number of recommendations, including:
- Normal planting should continue uninterrupted;
- The industry should replace smut-susceptible varieties with smut resistant varieties during their normal cycle;
- Decisions relating to the approved variety lists for planting should be made on the basis of consultation with and advice from BSES and industry in each of Queensland's six Pest Quarantine Areas; and
- That the Government should increase its input into research and the breeding of smut-resistant varieties of cane.

In response to the Report the Government amended the *Plant Protection Act 1989* to allow the chief executive to make, amend or repeal approved plant declarations in situations where restrictions on varieties are no longer justifiable, for reasons relating to the inability to control the spread of pests in Queensland. The Government announced in June 2007 it would invest in four strategies to address the recommendations of the Watson Report into sugarcane smut:
- development and extension of farmer decision making tools for crop planting/removal, and smut-specific business viability information packages;
- extension of farming systems practices that enhance soil health and reduce farm inputs;
- extension education tools for on-farm surveillance, epidemiology and farming systems practices; and
- accelerated breeding and propagation of smut resistant varieties.

In July 2007 the Australian Government announced it would provide a $2 million grant to the Sugar Research and Development Corporation to help fast track the development and release of new plant varieties for use across sugar growing regions. The grant has not yet been released to the Corporation.

In November 2007 Primary Industries Standing Committee decided to commission an analysis of the initial emergency response that followed the detection of sugarcane smut. Dr Kevin Dunn was appointed to undertake the analysis. The terms of reference are to:

(a) Take into account all observations and learnings from sugarcane smut initial response phase from those parties involved;
(b) Summarise the key issues that arose, indicate why those issues did arise; and advise how they could be avoided in the future;
(c) Provide clarification and guidance on the most effective application of the Deed during the Initial response phase of the emergency plant pest response;
(d) Make recommendations as to any adjustments to the Deed (Emergency Plant Pest Response Deed) considered necessary to enable effective plant pest responses.

Meanwhile, the occurrence of smut in the Queensland industry continued to spread through 2007 with confirmed incidences in the Herbert, Central and Southern areas of the State. Smut spores have been detected in the Burdekin and Mossman areas but to date the disease has not been identified 'on the ground' in either area.

Regional response plans have been adopted in each area of the state and farmers generally are choosing to plant smut resistant varieties where plant material is available in sufficient quantities to enable them to do so.

By the end of the 2007 crushing season sugarcane smut had been positively identified on 341 farms in eleven different mill areas in Queensland with the heaviest outbreaks being in the original Isis area and the Herbert with some signs of rapid expansion emerging in the Central region.

The Market for Raw Sugar
Many commodities around the world continued to enjoy the high prices established in 2006, the market's enthusiasm did not carry over to sugar. The ICE No. 11 (formerly the NYBOT No. 11) began the year at over US11.0. It quickly dropped below US9.0 cents per pound as the market came to grips with the full extent of a global supply surplus of around 11 million tonnes. The growing surplus in India was of particular concern given its rapid turn around from being an importer to an exporter in just over two years. India's reluctance to export large quantities at prices under US 10 cents per pound combined with the appreciation of the

Brazilian Real and the dearth of cheap and easy expansion options left for the Brazilian industry effectively 'capped' the world market at US 10 cents per pound. This significance of this new market 'price cap' is its movement away from Brazil's cost of expansion to the minimum price at which Indian producers could profitably export.

Late in the year however, a number of critical changes occurred to fundamentals underlying the world sugar market:

- It became clear that Brazil had shifted a significant portion of its crop towards ethanol.
- Political wrangling in India between the millers and the government hampered the start of the current crush.
- Analysts began to cast doubt on the ability of India's export infrastructure to handle more than 2-3 million tonnes; and
- A booming oil price led to a sharp recovery in prices, buoyed largely by fund speculation as a result of an aversion to the burgeoning sub-prime crises in the securities market.

World aggregate sugar consumption grew by 3.5 percent or an estimated 5.3 million tonnes to approximately 156 million metric tonnes raw value (mtrv) on the back of lower prices and strong demand in Asia and the Middle East.

After the decline in EU export volumes and changes to the London refined sugar contract the world export market was seen as trending away from refined sugar and towards export raws. The breakdown of the EU's domination of the export refined sugar market caused the white sugar premiums to rise, encouraging investment in the construction of destination sugar refineries in what were previously stalwart refined import markets, predominantly Africa, the Middle East and Asia.

Brazil remains the world's largest sugar producer and exporter, producing approximately 32.5 million tonnes of sugar, up from 27.8 million tonnes the previous season. Earlier in the year India was tipped to take over the top spot with an estimated record crop and the appreciation of the Real against the USD, lower world prices, and booming Flex Fuel Vehicle sales all pushing Brazil towards record ethanol production. This year saw Brazil turn approximately 54 percent of its Centre South crop into ethanol, up from 50 percent last year. Ethanol exports were 17.8 billion litres, up 1.9 billion litres from last year. Much has been made of the growing importance of ethanol as a fuel in the last several years and this trend looks likely to continue with current investment targeting Brazilian ethanol rather than expansion in sugar production.

India did not meet some analyst's early expectations of overtaking Brazilian production this year. The market capped prices at India's cost of production. In addition inefficient transport infrastructure, recalcitrant (and financially challenged) millers unwilling to pay growers and a booming wheat price luring away sugarcane farmers all chipped away at India's crop estimates.

In the 2006/2007, India produced 30.8 million tonnes, closing the gap significantly on Brazil and increasing production by nearly 50 percent over the 2005/2006 crop. With ready access to the Middle East's burgeoning destination refinery market, increased plantings expected for next year, and a need to secure greater market share the Indians have begun a shift away from production of their traditional low quality whites to raw sugar. In an effort to support Indian producers, the state and central government issued a number of export and transport subsidies. However, even with these subsidies and a move to supply adjacent destination refineries it was difficult for India to export much of its stock. Exports totalled 1.9 million tonnes in 2006/2007 out of a surplus of approximately 9 million tonnes, adding to India's large surplus.

Beyond Brazil and India a sharp rebound in overall Asian production has added to this year's depressed prices. Pakistan has experienced a substantial turnaround in production, from importing 2 million tonnes in 2005/06 to producing nearly four million tonnes this year; enough to reach self-sufficiency.

China and Thailand both experienced marked recovery in output thanks to much improved weather and in China's case, higher domestic prices. China's production is expected to reach 13 million tonnes, about 700,000 tonnes higher. Thailand's sugar output is forecast to increase by 6.8% to 7.5 million tonnes in 2007/2008 following a substantial increase in plantings.

Income Statement
for the year ended 29th February 2008

	Note	2008 $	2007 $
Revenue from Sugar Sales		68,129,166	107,428,032
Cost of Sales		(43,071,734)	(68,071,426)
Prior Year Adjustment		(718,238)	815,728
Mill Sugar Swaps Settlement		10,852,650	0
Gross Profit		35,191,844	40,172,334
Crystallisation of Sugar Positions 2008 to 2010 Seasons		12,946,171	0
Other Income		9,912,161	8,984,488
TOTAL INCOME		58,050,176	49,156,822
Manufacturing Expenses		8,835,291	9,382,111
Sugar Charges – Haulage		2,757,288	3,115,414
Repairs and Maintenance		10,840,31	10,833,905
Depreciation		3,332,389	4,370,280
General Expenses		8,036,640	7,462,764
Financial Expenses		4,033,479	3,989,890
Nature Plus Expenses		38,252	0
TOTAL EXPENSES		37,874,070	39,154,364
OPERATING PROFIT before surplus distribution and income tax		20,176,106	10,002,458
Surplus Distribution	2	(2,636,013)	(2,830,352)
Income Tax Expense		(4,825,028)	(1,474,013)
NET PROFIT after surplus distribution and income tax		12,715,065	5,698,093
Retained Earnings at beginning of the year		76,741,794	71,043,701
RETAINED EARNINGS AT END OF FINANCIAL YEAR		89,456,859	76,741,794

FINANCIAL REPORTS

Balance Sheet as at 29th February 2008

	2008 $	2007 $
CURRENT ASSETS		
Cash and deposits	39,663,003	47,157,154
Debtors and prepayments	22,572,943	28,631,053
Inventory – at cost	3,905,035	3,265,525
Total current assets	66,140,981	79,053,732
NON CURRENT ASSETS		
Investment – at cost	5,794,139	5,794,139
Intangibles – Licences & Patents	2,079,559	230,915
Property, plant and equipment	138,007,140	122,241,163
Deferred Tax Asset	9,863,288	14,688,316
Defined Benefit Superannuation Fund Surplus	1,981,199	1,536,344
Total non current assets	157,725,325	144,490,877
TOTAL ASSETS	223,866,306	223,544,609
CURRENT LIABILITIES		
Creditors and borrowings	61,648,968	71,119,107
Provisions	2,119,284	1,890,905
Total current liabilities	63,768,252	73,010,012
NON CURRENT LIABILITIES		
Creditors and borrowings	7,857,965	11,009,573
Total non current liabilities	7,857,965	11,009,573
TOTAL LIABILITIES	71,626,217	84,019,585
NET ASSETS	152,240,089	139,525,024
EQUITY		
Reserves		
Asset revaluation reserve	60,500,355	60,500,355
Capital profits reserve	582,512	582,512
Loan redemption reserve	1,700,363	1,700,363
Retained earnings	89,456,859	76,741,794
TOTAL EQUITY	152,240,089	139,525,024

Cash Flow Statement
for the twelve months ended 29th February 2008

	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	103,998,034	121,305,733
Payments to suppliers and employees	(82,061,999)	(105,653,182)
Interest received	3,059,156	2,350,959
Interest paid and borrowing costs	(3,900,121)	(3,892,814)
Net cash provided by operating activities	21,095,070	14,110,696
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(20,947,011)	2,565,549
Proceeds from sale of plant and equipment	31,626	(22,723)
Net cash used in investing activities	(20,915,385)	2,542,826
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	(7,648,381)	1,143,515
Lease liabilities	(25,455)	(3,523)
Net cash used in financing activities	(7,673,836)	1,139,992
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS HELD	(7,494,151)	17,793,514
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	47,157,154	29,363,640
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD	39,663,003	47,157,154

STATEMENT OF CHANGES IN EQUITY
for the year ended 29th February 2008

	Asset Revaluation Reserve	Capital Profits Reserve	Loan Redemption Reserve	Retained Earnings	TOTAL EQUITY
Balance at 1st March 2005	68,290,818	582,512	1,700,363	48,917,048	119,490,741
Changes in Equity					
Change in Asset Revaluation Reserve	(1,287,052)				(1,287,052)
Deferred Tax Asset				16,162,329	16,162,329
Profit (loss) for the period				5,964,324	5,964,324
Balance at 28th February 2006	67,003,766	582,512	1,700,363	71,043,701	140,330,342
Changes in Equity					
Change in Asset Revaluation Reserve	(6,503,411)				(6,503,411)
Profit (loss) for the period				5,698,093	5,698,093
Balance at 28th February 2007	60,500,355	582,512	1,700,363	76,741,794	139,525,024
Profit (loss) for the period				12,715,065	12,715,065
Balance at 29th February 2008	60,500,355	582,512	1,700,363	89,456,859	152,240,089

Notes to and forming part of the Accounts for the twelve months ended 29th February 2008

NOTE 1: **Preparation of Concise Financial Report**

The Concise Financial Report has been prepared in accordance with Accounting Standard AASB 1039 *Concise Financial Reports.* The concise financial report and specific disclosures required by AASB 1039 have been derived from Proserpine Cooperative Sugar Milling Association Limited's Report to Members, and is presented in Australian dollars. A full description of the accounting policies adopted by the entity is provided in the 2006 financial statements, which form part of the Report to Members. The Concise Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Economic Entity as the Report to Members.

From 1st March 2005, Proserpine Cooperative Sugar Milling Association Limited prepares its financial statements in accordance with Australian equivalents to IFRS ('AIFRS'). Due to the requirement to publish comparative information for the previous corresponding period, the effective date for transition to AIFRS is 1st March 2004.

The Cooperative's accounting policies have been consistently applied to all periods presented in the Concise Financial Report.

NOTE 2: **Surplus Distribution**

	2008 $	2007
A partially franked distribution will be paid in accordance with the Association's 10-year surplus distribution rule.		
Gross Distribution	2,815,622	2,984,302
Imputation Tax Credit	(179,609)	(153,950)
Cash Distribution	2,636,013	2,830,352
Surplus distribution	2,636,013	2,830,352

Directors' Report

The Directors present their report and the financial statements of Proserpine Cooperative Sugar Milling Association Limited for the twelve months ended 29th February 2008.

Directors

The name and profile of Directors in office for the twelve months ended 29th February 2008 follow:

Luigi James Raiteri
Elected Deputy Chairman in 1998 and retained this post until elected Chairman in 2005. Also held the post of Deputy Chairman from 1993 to 1994. First elected Director in 1991 to 1994, and then again in 1995 to current.

John David Mau
Elected Director since 1992. Deputy Chairman from 1994 to 1997. Re-elected Deputy Chairman in 2005.

Russell William Biggs
Elected Director since 1994.

Mark Alfred Blair
Elected Director since 2004.

Gary William Considine
Elected Director since 2006.

Anthony Joseph Large
Elected Director since 2005.

Geoffrey Valmadre
Elected Director since 1984.

A record of Board Meeting attendance for the twelve months ended 29th February 2008 follows:

Board Meeting Attendance				
Directors	**Regular Meetings**		**Special Meetings**	
	Held	**Attended**	**Held**	**Attended**
L J Raiteri	11	11	9	9
R W Biggs	11	11	9	8
M A Blair	11	11	9	9
G W Considine	11	11	9	8
A J Large	11	11	9	9
J D Mau	11	11	9	9
G Valmadre	11	11	9	9

DIRECTORS' REPORT

Primary Activity of the Association
The primary activity of the Association is to acquire, transport to the factory, and process the sugar cane of the members and to distribute the commodities produced from such cane.

Review of Operations
A review of the operations of the Association during the twelve months ended 29th February 2008, and the results of these operations, are included in the preceding sections of this report.

Operating Results
The decision to crystallise the Mill's hedging positions for the 2008 – 2010 seasons has afforded a significant operating profit for this year. These funds have been utilised in increasing its non current asset position and have ensured that obligations for capital projects have been met from cash flow rather than financing. This, along with the security of Government Funding via the RCP and R & D Start Grants, has ensured that the Mill's position with respect to these capital projects is strong moving forward.

Given that the crystallisation profits relate to three future years, the Board has decided to keep the surplus distribution in line with the previous year which gives a true reflection of the operating result for the 2007 year in isolation.

Surplus Distribution
The board has recommended a surplus distribution of $2.636 million. The board has taken into account that $12.9 million of the gross profit of $20.2 million was attributable to the crystallisation of sugar pricing positions for future years. The operating profit for the 2007 crop was $7.2 million and, after recognising the loan repayments and other cash flow commitments, have allocated an amount which will not place a strain on the cash position of the cooperative.

Events Subsequent to Balance Date
World sugar prices dropped away markedly during this year. In the latter part of 2007 there were signs of resurgence and it was at this point that grower pricing starting to take off with pricing at levels not seen for some time. The pricing secured by growers under this program should not only ensure reasonable returns for growers but also injects an enthusiasm back into the industry.

2008 crop estimates are very favourable given the significant rain experienced in the earlier part of the year. The security of irrigation supply from the Peter Faust Dam should ensure that there is a crop which is not unlike those experienced in the 2005 and 2006 seasons.

Future Developments
Construction of the furfural plant is well advanced with components for various aspects of the plant expected to be complete over the coming months. Production is forecasted to commence during the 2008 crush. The Nature Plus project is advancing and production is expected to commence in 2008.

Environmental Regulations
Proserpine Cooperative Sugar Milling Association Limited is subject to environmental regulations under the *Commonwealth Environmental Protection and Bio-Diversity Conservation Act* and the *Queensland Environmental Protection Act*. This legislation regulates the Association's emissions to air and also allows for the Association's emissions to land to be internally tested and regulated.

Indemnification of Officers
The Association has Directors' and Officers' liability insurance which covers all loss which Directors and Officers could become legally obligated to pay on account of any claim for a wrongful act while serving the Association.

L Raiteri | John D Mau

L J Raiteri
Chairman

J D Mau
Deputy Director

Signed in accordance with a resolution of the Directors

Directors' Declaration

In the opinion of the Directors of Proserpine Cooperative Sugar Milling Association Limited:

(a) The financial statements and notes as set out on pages 17 to 21 are in accordance with the *Cooperatives Act* 1997, the Cooperatives Regulation 1997 and the Rules of the Cooperative, including:

  (i) giving a true and fair view of the financial position of the Cooperative as at 29th February 2008 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date in accord with the basis of accounting described in Note 1; and

  (ii) complying with Accounting Standards to the extent described in Note 1 and including the applicable provisions of Chapter 2M.3 of the Corporations Law; and

(b) There are reasonable grounds to believe that the Cooperative will be able to pay its debts as and when they become due and payable.

Dated at Proserpine this 16th day of April 2008.

Signed in accordance with a resolution of the Directors.

L Raiteri

John D Mau

L J Raiteri
Chairman

J D Mau
Deputy Chairman

Statement by Principal Accounting Officer

I, Amanda Maree Hadlow, being the officer in charge of the preparation of the accompanying accounts of Proserpine Cooperative Sugar Milling Association Limited for the year ended 29th February 2008, state that to the best of my knowledge and belief such accounts give a true and fair view of the state of affairs of the Association as at 29th February 2008, and of its results for the year ended on that date.

Dated at Proserpine this 16th day of April 2008.

A M Hadlow
Principal Accounting Officer

AUDITOR'S REPORT

Independent Auditor's Report

To the Members of Proserpine Cooperative Sugar Milling Association Limited,

Scope

We have audited the financial report of Proserpine Cooperative Sugar Milling Association Limited for the financial year ended 29th February 2008, consisting of the income statement, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes and the directors' declaration as set out on pages 17 to 25. The Cooperative's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Cooperative.

This audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Cooperative's financial position and the financial performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Proserpine Cooperative Sugar Milling Association Limited is properly drawn up:

(a) so as to give a true and fair view of the Cooperative's financial position as at 29th February 2008 and of its financial performance for the financial year ended on that date;
(b) in accordance with the provisions of the *Cooperatives Act* 1997 and Cooperatives Regulation 1997 including applicable provisions of Chapter 2M.3 of the Corporations Law;
(c) in accordance with the Rules of the Cooperative; and
(d) in accordance with Accounting Standards and other mandatory professional reporting requirements.

A V Carroll

Date: 16th April 2008
Address: 86 Main Street
Proserpine Qld 4800

Firm: C E Smith & Co. Proserpine
Chartered Accountants
Partner: A V Carroll

SUGAR QUALITY COMPLIANCE

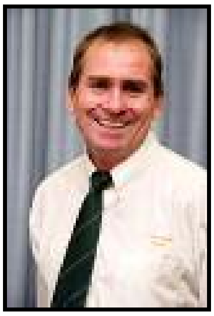
Criteria	% Within Premium					% Discounted				
Season	**07**	**06**	**05**	**04**	**03**	**07**	**06**	**05**	**04**	**03**
Pol	97	93	95	96	92	-	-	4	1	3
Moisture	83	85	75	92	94	-	-	3	1	2
Filtrability	100	100	95	99	95	-	-	0	0	1
Starch	55	99	100	100	100	-	-	0	0	0
Fine Grain	99	100	99	96	98	-	-	0	0	0
Colour	98	99	99	98	98	-	-	1	0	1
Temperature	100	99	97	99	98	-	-	2	1	1
Dextran	100	100	99	100	99	-	-	0	0	0
Ash	99	100	100	100	99	-	-	0	0	1
Floc	45	97	100	99	99	-	-	0	0	1
All Criteria	29	78	65	85	81	-	-	8	2	4

MILL OPERATION STATISTICS

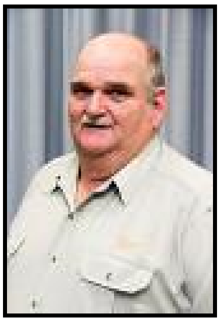
Crushing Season	**2007**	**2006**	**2005**	**2004**	**2003**
Number of suppliers	228	242	250	265	263
Tonnes of cane crushed	1 757 471	1 989 535	2 037 397	1 869 276	1 782 358
Season length (weeks)	17.4	21.4	21.6	19.2	18.7
Crushing rate (tonnes per hour)	660	662	655	655	632
Average CCS in cane	13.69	14.03	13.48	14.59	14.10
Average fibre in cane (%)	14.84	14.65	14.65	14.59	13.85
Green cane % supplied (as consigned)	94	92	85	67	65
Total extraction at mills (%)	97.30	97.48	97.56	97.46	97.58
Molasses made (% of cane)	3.00	3.18	3.07	3.56	3.39
Sugar made (tonnes IPS)	247 522	287 546	284 564	283 286	259 197
Pool Index	1.0280	1.0308	1.0368	1.0386	1.0312
Cane per tonne IPS sugar	7.10	6.91	7.16	6.60	6.88
Cane per hectare – tonnes	78.1	87.7	90.1	81.4	76.5
Sugar per hectare – tonnes	11.00	12.70	12.54	12.34	11.12

MANAGEMENT TEAM

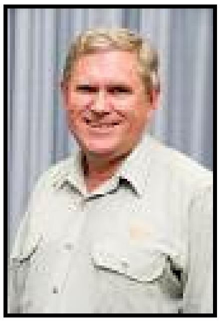
Chris Connors
General Manager



Ian McBean
Company Secretary



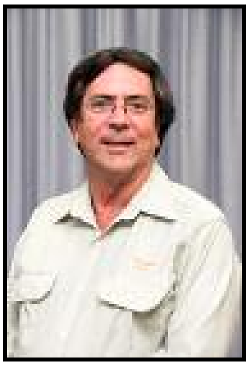
Mick Wesener
Factory Manager



Laurie Watson
Chief Chemist / Furfural Manager

Amanda Hadlow
Financial Controller

Steve Ischenko
Chief Electrical Engineer



Ron Worth
Cane Supply Manager

Neil Cawthorne
Treasurer

John Ievers
Human Resources Manager

Jasmin Davis
Workplace Health & Safety Team Leader

Robert Tawse
Manager Materials

Peter Moore
IT Manager

Laura Fontaine
Environmental Manager