QSL UPDATE WEEK ENDING 02.05.14

By CEO Greg Beashel

Since Wilmar announced its intention to break away from the export sugar industry's collaborative approach through QSL, we have spent a lot of time talking with grower organisation representatives, millers and individual growers.

Overwhelmingly, growers and millers are telling us they want to retain the system that provides unrivalled price transparency and marketing strength – a system that works for the benefit of growers and millers, offers a range of pricing options for different risk appetites, and delivers results for the entire industry.

To provide additional clarity, I thought it would be useful to share some of the common questions being asked and QSL's responses (below).

Commonly asked questions

Is QSL able to continue to provide a value-adding service to the industry beyond 2017, if Wilmar provides a notice?
With the remaining export sugar (about 1.5Mt), significant value can be achieved for the industry. We will work with our members to ensure we have the right model in place to achieve this. This may involve exploring other business development opportunities such as domestic market services to raise additional revenue, as well as reducing operating costs.

Why can't Wilmar do what they want to do within the QSL system?
Wilmar could do almost everything they are offering to their growers under QSL's current system, except sell their growers' economic interest sugar. Any aspect of the QSL system can be changed with the agreement of members.

If Wilmar provided notice, would it be able to leave before 2017?
Not without the consent of other milling members and our banking partners and QSL would not allow it under our Constitution as it would not be in the best interests of growers and millers.

What happens with the sugar terminals if Wilmar leaves?
Sugar Terminals Limited (STL) would have the right to terminate or change the lease for the bulk sugar terminals from 1 July 2017. We believe it is likely QSL would remain the manager of all of the terminals.

What changes will occur if Wilmar leaves?
For the next three years there would be very little change. Beyond that, there would be some changes reflective of the lower tonnage being exported through QSL. Taking each of the four parts of the business in turn:

Financing: QSL would provide an Advances Program through access to a credit facility. While there may be some impact on financing limits and costs at the margin, QSL would still be able to obtain financing at very low rates.

Pricing: QSL would continue to offer pricing options tailored to the industry's needs. There may be an impact on the number of pooling options available.

Logistics: QSL would intend to continue to operate the terminals on a pooled-cost basis for RSSA participants and provide Wilmar with the option to undertake a storage and handling agreement. Based on 2014 season volumes and costs. This would reduce the overall costs for the remaining pooled participants by around $4/tonne.

Selling: Millers would continue to have the option to sell their economic interest sugar. QSL would continue to sell sugar to our long-standing customers who are prepared to pay a premium to a producer seller over a trader.

How does QSL provide transparency?
The structure of QSL as a not for profit, tax free company owned by the industry is a robust transparent model that has no other motivation than to act in the best interests of the industry and maximise pool returns. QSL is owned by its members and is required to disclose all costs and returns to its members.

How is Wilmar's proposed joint marketing company model different to QSL?
The main difference that industry participants have raised is the contracting model with Wilmar trading and the transparency issues this creates. There are other obvious differences such as it handling a lower tonnage than QSL currently does and it not being a tax free entity.

Will Queensland's quality brand be at risk?
The reduced pooling of raw sugar will compromise our flexibility in managing quality that matches our customers' needs.

<u>Our position</u>

Greater economies of scale are achieved if all of Queensland's export sugar is kept together and moved through QSL's four value offerings: financing, pricing, selling and logistics. No matter what happens, QSL will continue as a major force in raw sugar marketing and export, delivering ongoing value to its members and advancing the industry.

The industry now has the opportunity to come together to assess all potential options for the future and decide what is best collectively for the Queensland sugar industry.

We will work with our members to ensure we have a model in place that delivers value and provides our loyal customers, with quality Queensland sugar that is delivered on-time and in-full.

Please visit www.qsl.com.au for further frequently asked questions and answers.

<u>2013 Season Pool Performance</u>

Prices are indicative only and don't include a firm value from the QSL Shared Pool. Growers should always consult their mill for information about their individual cane payments.

Current as of 11.04.14	2013 Gross	% Priced
QSL Harvest Pool	$391	94%
QSL Discretionary Pool	$398	99%
QSL Actively Managed Pool	$409	98%
QSL Growth Pool	$423	93%
QSL Guaranteed Floor Pool	$393	100%
QSL US Quota Pool	$393 Net	
QSL 2013 Season Forward Pool	$433	99%
QSL 2014 Season Forward Pool	$420	75%

Market Update
By QSL Liquidity Manager Ginette Barrett
Current as of 28 April 2014

Sugar
The raw sugar market has had a positive fortnight with the sugar price climbing as high as 17.59 cents per pound and ending last week at 17.20 cents per pound for the May14 contract. The 2014 season is currently pricing $449 Aussie dollars per tonne for Australian sugar producers.

Influencing the market was UNICA's release of their estimate for the Brazilian crop. Surprising the market, the sugar production forecast was down for 2014 with a total of 32.5 million tonnes compared to 34.3 million tonnes in 2013. And this doesn't take into consideration the impacts of a predicted El Nino later this year. The sugar to ethanol mix has also decreased from 45.1 per cent in 2013 to a predicted 43.6 per cent in 2014.

To wrap-up our sugar commentary, physical premiums remain soft as the market slowly clears the world surplus, however the El Nino continues to simmer in the background and should support prices in the second half of 2014 and into 2015.

Currency
Turning now to the currency, the Australian dollar has dropped slightly to 92.76 US cents and is due to remain below 93 cents due to ongoing tensions between Russia and the Ukraine impacting the global stock market. Standard and Poor's has downgraded Russia and sanctions are being proposed

by Europe and the US.

QSL sees the Aussie dollar trading between 92 and 95 US cents for the short-term with the current soft CPI and China data. Also holding it here will be the RBA's reluctance to move the rates any time soon.