QSL UPDATE WEEK ENDING 09.05.14

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Wilmar's recent announcement that it intends to give QSL notice has prompted plenty of questions and discussion within the Queensland sugar industry. Our CEO Greg Beashel covered some of the key aspects of this issue in his update last week, and we've decided to include some additional Frequently Asked Questions this week to further expand on some of these points. As always, please don't hesitate to get in touch if you require any further information on this matter.

General

How does QSL provide transparency?
The structure of QSL as a not-for-profit, tax-free company owned by the industry with no ownership interests in sugar mills or refineries, is a robust and transparent model, providing a marketing entity 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 much of the profit that is made by QSL is kept by QSL?
QSL is a not-for-profit organisation that is owned by its members - millers and growers - and therefore any revenue earned flows back to members.

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 QSL would not allow it under our Constitution as it would not be in the best interests of growers and millers.

Could Wilmar access QSL's services if they left the system?
If it added value to our members, QSL could potentially provide services to Wilmar on a service-fee basis. If this was to occur, Wilmar would not participate in or gain the benefits of QSL's pooled system.

How is Wilmar's proposed joint marketing company model different to QSL?
The main difference that industry participants have raised with QSL is the contracting model with Wilmar trading and the transparency and conflict of interest issues this creates.

Have other millers said they will remain with QSL if Wilmar provides a notice?
We have received positive support to-date from growers, millers and customers. Mackay Sugar has already committed to roll forward their RSSA for the 2017 season. QSL is confident about the future, regardless of Wilmar's decision. Our aim is to continue to provide the industry with a strong value proposition across our four pillars; financing, pricing, selling and logistics. We will continue to leverage our long-term reputation as a reliable producer-supplier of high-quality raw sugar to established and growing markets within the Asia-Pacific region.

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 enter a storage and handling agreement. This would be based on 2014 season volumes and costs. This would reduce the overall storage and handling 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.

Financing *(QSL provides low-cost financing through Advance Payments to members)*

How does QSL provide funding to the industry?
QSL provides cost-effective and flexible funding through a commercial paper (a short-term debt instrument) and $500m standby credit facility. This allows us to obtain low-cost funding and pass this on to the industry through the Advances Program. The Advances Program provides ongoing cash flow to millers (who pass this on to growers) throughout the year. This funding is at rates generally lower than retail rates available to growers.

Why is the Standard & Poor's rating of significance to QSL's financing structure?
The Standard & Poor's rating allows us to obtain cheaper finance through issuing commercial paper. Without it, we would still be able to access cost-effective financing by drawing on our standby credit facility or potentially exploring other options.

Wilmar says they will pay growers earlier than QSL. Is QSL able to change the Advances Program?
QSL could change the Advances Program to pay millers and growers earlier if that was what the industry wanted. This is something that we have been exploring lately due to grower feedback. There may be some implications on when the sugar is priced.

Pricing *(QSL has knowledge, expertise and experience in pricing and managing futures markets)*

How do I compare sugar prices, particularly when someone tells me they have received a better price than me?
QSL's pricing is carried out through our range of pricing options. QSL provides the industry with the option to conduct forward pricing through QSL's books and offers a range of pooling options where pricing decisions are made on behalf of millers and growers within agreed risk parameters. We aim to beat the market average return in all QSL-managed pools. It's important to ensure you are properly comparing prices achieved for sugar as each pricing option has different risks associated with it and pricing is conducted at different times throughout the season. The sugar market is volatile and prices can move rapidly depending on global influences (eg weather events) and therefore prices cannot be guaranteed.

What involvement do growers have in QSL's pricing and marketing decisions?
QSL has been set up by the industry, for the benefit of the industry and therefore the fundamentals of all that we do and the products we offer have been established in consultation with the industry. QSL's marketing plan and pricing products are determined by QSL after consultation and input from the industry, and are regularly reviewed.

How does QSL determine what pricing options are offered to millers and growers?
QSL regularly updates its pricing options available to the industry based on the feedback it receives from its members and consultation with grower organisations. It's important to remember that it is the decision of the individual miller as to whether they offer all of QSL's pricing options to their growers. Millers also have the ability to set-up their own type of pricing pool or forward-pricing option through QSL and offer this to their growers. In the 2013 season, in response to requests from the industry, QSL added two new forward-season pools to enable pricing decisions to be made as far out as three years. Similarly, this season we added the Growth Pool which provides the greatest discretion for QSL to make pricing decisions.

What level of risk does QSL take with my sugar?
We offer a range of different pricing options to growers and millers tailored to different levels of risk. QSL has a goal within each pool to exceed the market-average price over the life of the pool. Each pool has different mechanisms available to it to meet this objective. QSL benchmarks itself against this market average. QSL outperformed the market benchmark by an average of $20 per tonne IPS in QSL ICE11 pools, last year (2012 season).

Other than the ICE11 and exchange rate, what else is included in the sugar price paid by customers?
The other elements of the total sugar price are the premium and freight, which are negotiated during the selling process. Premiums and freight are negotiated directly with the customer and account for factors such as: • Value paid for the freight advantage of buying raw sugar from Queensland as opposed to the next best alternative source • Value paid for shipment flexibility and reliability • Value paid for accessing consistent high-quality Australian raw sugar • Track record in delivering on-time and in-full, and ease of doing business e.g. secure credit processes and terms.

Selling *(QSL maintains strong relationships with high-returning customers in the Asia Pacific Region)*

What is the difference between trading and QSL's approach to selling?
QSL is a producer-seller and is about developing long-term and sustainable relationships with high-returning customers and having strong supply chain relationships where value can be optimised. Trading is traditionally focused on the dollar return for a specific deal rather than looking to develop long-term, sustainable relationships. QSL customers value the producer seller approach that is unique to QSL. This approach puts the customer first and has a focus on delivering high quality sugar best suited to each customer's operations, when the customer wants it. Customers are prepared to pay a premium for this and our shipping flexibility.

What component of the end price is made up of premiums?
The majority of the sugar price is made up of a price determined on the futures market (ICE11 or ICE16) and the premium component is negotiated on top of this during the selling process which largely relates to the freight cost differential into Far East Asia region destinations. For example, if you receive a sugar price of $500 a tonne then about $10-$20 is the premium negotiated directly with the customer. This is the part that millers currently have control of when they sell their economic interest sugar.

If Wilmar provides a notice, will this affect your current relationships with customers?
QSL has long-term customer relationships that date back to its origins in 1923 when the Sugar Board was established. We are grateful that many of our customers have told us that they look forward to continuing their relationship with QSL and the Queensland sugar industry into the future. Many of them are fully aware of the fact that we are a producer-seller rather than a trader and are willing to pay a premium for the quality of sugar we produce and the customer service we provide.

Logistics *(QSL manages the safe and efficient storage, handling and shipping of raw sugar)*

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. QSL would seek to remain the manager of all of the terminals due to the lower handling costs per tonne, which can be derived from economies of scale resulting from a single operator.

How will shipping work if Wilmar exits? If QSL continues to manage all of the STL terminals, then QSL would continue to load all shipments leaving Queensland's shores. All sugar in QSL's pooling arrangement would continue to be blended at the terminals and managed to optimise returns for RSSA participants.

2013 Season Pool Performance

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 25.04.14	2013 Gross	% Priced
QSL Harvest Pool	$391	96%
QSL Discretionary Pool	$398	100%
QSL Actively Managed Pool	$410	100%
QSL Growth Pool	$424	100%
QSL Guaranteed Floor Pool	$393	100%
QSL US Quota Pool	$387 Net	
QSL 2013 Season Forward Pool	$433	99%
QSL 2014 Season Forward Pool	$425	76%

Market Update
By QSL Treasurer Stephen Stone
Current as of 5 May 2014

Sugar

Raw sugar futures were generally lower over the past two weeks, tracking the physical premium market that remains weak. The MAY14 contract expired at 17.24c/lb, with over 800,000 tonnes delivered to the tape. The price action after expiry has not given market bulls any solace. Prices gave up ground very easily into the end of last week with the JUL14 contract closing at 17.45c/lb, ominously close to the MAY expiry.

Realistically, prices have been meandering for some time, reflecting the tug-of-war between weak physical markets and an appropriate weather premium for Brazil's dry start to the crush and now a growing probability of an El Nino weather event. Accordingly, we need to see futures break out of a 16.50-18.50 c/lb range to gather any real momentum in either direction.

We sense both sides of this range can in fact be tested, as the El Nino event is more likely to play out later in the season, potentially lifting the Mar15 and May15 contracts, whilst a spot market still flush with sugar will continue to weigh on the prompt JUL14 contract . The outlook, on balance, remains positive. The global sugar balance is tightening as a response to lower prices; a situation exacerbated by the implications of a potential El Nino weather event. The timing of any lift in prices is clearly

influenced by the ability of the market however, to clear the remaining sugar surplus via consumption or storage.

Currency

Not unlike the range trading commodity markets recently, the Australian dollar market has also been relatively tame. The currency topped out above US93.50 cents before falling to US92 cents last week, as weak inflation data in Australia and stronger employment data in the US saw US dollar bulls re-emerge. As was evidenced last week, the broad macro theme of a market waiting for an eventual US economic recovery is still very much in play, influenced in the short-term by the inconsistent nature of Australian economic data.

More consolidation is seen as very likely, with levels above US95 cents unlikely. The Federal Government budget is seen as a potential negative for the currency, as the Government looks to tighten purse strings to reign in the deficit at a time when the economy remains fragile.

We look for more consolidation in the short-term, with the Australian dollar drifting to the lower-end of recent ranges, toward the US91 cent level. Sustained weakness is less likely until later into 2014 as the declining commodity prices eventually weigh on the currency again.