



QSL RSSA MARKETING GUIDE

2016 SEASON EDITION

AS AT 11 MARCH 2016

A GUIDE TO HOW QSL MANAGES ITS MARKETING,
RISK MANAGEMENT AND SUGAR PRICING
ACTIVITIES FOR QUEENSLAND GROWERS
AND SUPPLIERS

IMPORTANT NOTICE - DISCLAIMER

This QSL RSSA Marketing Guide (**Guide**) contains information of a general background or summary nature about the operation of aspects of the Raw Sugar Supply Agreements between QSL and its contracted Suppliers. It does not purport to be comprehensive or complete. It does not constitute financial product or investment advice, a risk management strategy, a recommendation to invest in any of the pools described in the Guide, or an offer or invitation or recommendation with respect to any of the pools.

QSL does not make any representation or warranty as to the accuracy, completeness, currency or reliability of the information contained in the Guide, including, but not limited to, any forecast information.

Information about past performance in the Guide is for illustrative purposes only and should not be relied on as, and is not, an indication of future performance.

Any estimates or forecasts of future performance or other forward looking information in the Guide (**Estimates and Forecasts**) are based on many assumptions, and are subject to significant uncertainties, many of which are outside the control of QSL. The information in the Guide has not been prepared with a view to enabling readers to make an informed assessment of the Estimates and Forecasts or to assess whether the assumptions will actually be met or the effect on the Estimates and Forecasts if they are not met. The Estimates and Forecasts are not representations as to future matters, and nothing contained in the Guide should be relied upon as a representation as to future matters.

The statements contained in the Guide are made only as at the date of the Guide unless otherwise stated and remain subject to change without notice. QSL is not under any obligation to correct or update information in the Guide.

If you would like further details in relation to the information in the Guide, please contact QSL on (07) 3004 4400.

Contents

CHAPTER 1 – ABOUT QSL'S RAW SUGAR SUPPLY ARRANGEMENTS	2
1.0 Introduction	2
2.0 What is a pool and what type of pools does QSL operate?	3
3.0 What pools does QSL offer to Suppliers?	4
4.0 When do Suppliers elect which pools to participate in?	5
5.0 How is the price for each pool determined?	6
6.0 How do payments to Suppliers occur?	8
CHAPTER 2 – SUGAR PRICING AND THE FUTURES MARKET	10
7.0 Sugar pricing and the Futures Market	10
8.0 Physical sales and determining the sale price for the customer	15
CHAPTER 3 – RISK MANAGEMENT	23
9.0 Risk exposure: Raw sugar industry risk	23
CHAPTER 4 – QSL POOL DESCRIPTIONS AND OVERVIEWS	34
Pool 1 – QSL US Quota Pool	36
Pool 2 – QSL Harvest Pool	40
Pool 3 – QSL Actively Managed	46
Pool 4 – QSL Guaranteed Floor Pool	52
Pool 5 – QSL 2016 2-Season Forward Pool	58
Pool 6 – QSL 2017 2-Season Forward Pool	64
Pool 7 – Fixed Price Forward Contract	70
Pool 8 – In-Season Fixed Price Contract	76
Pool 9 – Target Price Contract	80
Pool 10 – Supplier Pricing Scheme	84
Pool 11 – QSL Shared Pool	88
CHAPTER 5 – GLOSSARY OF KEY TERMS	94

CHAPTER 1

About QSL's Raw Sugar Supply Arrangements

1.0 INTRODUCTION

QSL is a leader in raw sugar marketing and logistics in the Asia-Pacific region. QSL manages its bulk raw sugar export program as a pooling system, where participating milling companies (referred to as 'Suppliers' throughout this Guide) throughout Queensland elect to 'pool' their raw sugar together to be priced and sold.

The QSL pooling system delivers a range of benefits for participants that include:

PRICING

QSL runs an extensive currency and raw sugar hedging program to assist contracted Suppliers (and, indirectly, their contracted Growers) to sell in the international marketplace and provide forward pricing for future seasons.

FINANCING

QSL borrows funds to operate the Advance Payments program that allows the Queensland sugar cane industry to maintain cash flows prior to physical sales and deliveries being completed.

QSL's credit profile reduces the cost of borrowing funds and increases net returns for participants.

MARKETING

QSL typically markets most of the raw sugar it receives directly to customers in Asia. In addition, QSL may supply the United States of America (USA) and Europe under quota arrangements. QSL's traditional markets are Japan, Korea and Malaysia, while Indonesia has been a recent growth market. South East Asia is the fastest growing raw sugar market in the world and Australia's proximity to these markets means it is well placed to capture the benefits from this regional growth going forward.

QSL's quality control program allows QSL to offer our customers a consistency in raw sugar quality that is unmatched in the global market.

LOGISTICS

QSL is one of the largest and most efficient bulk sugar terminal operators in the world, using integrated storage, shipping and logistics management to help ensure customers receive a reliable and consistent supply of raw sugar.

QSL operates six bulk sugar terminals in Queensland with a combined storage capacity of 2.5 million tonnes of raw sugar. Each terminal is sub-leased from Sugar Terminals Limited, with management, terminal operations and maintenance provided by QSL. QSL also arranges the shipping for the majority of its export sales, chartering up to 60 bulk vessels each year. QSL staff control the loading processes at each port, ensuring priority access to port berths and avoiding costly shipping delays.

THIS GUIDE

This Guide provides information to assist in understanding how QSL makes pricing and risk management decisions. The Guide includes:

- a summary of the framework within which the QSL pools operate, including descriptions of how raw sugar allocated to pools is priced and which risk management strategies QSL adopts;
- a description for each pool, detailing the pool's objectives, risks and Supplier obligations; and
- a glossary of commonly used terms and abbreviations.

QSL also provides Pool Descriptions and Overviews for each of the pools it operates, which outline the key aspects and broad operating parameters of the pool. These Pool Descriptions and Overviews are available on the QSL website (www.qsl.com.au) and from Supplier and bargaining agent offices. The Pool Descriptions and Overviews should be read in conjunction with this Guide.

RAW SUGAR SUPPLY AGREEMENTS (RSSAS)

Cane is supplied to Suppliers by Growers under the relevant agreement(s) between Growers and the milling company they supply. The resulting raw sugar produced by the mills is (to the extent intended for sale via bulk export) priced, financed and marketed through QSL's pooling system and governed under Raw Sugar Supply Agreements (RSSAs), which are contracts between QSL and Suppliers.

Most cane pricing arrangements effectively provide that Growers will have the price risk exposure for a certain portion of the raw sugar produced from the quantity of cane delivered and the balance of the pricing exposure will fall to the Supplier. The extent to which Growers have the price risk exposure for the portion of raw sugar produced is referred to under the RSSAs as Grower Economic Interest (GEI) Sugar and the portion of raw sugar that the Supplier has the price exposure for is referred to as Supplier Economic Interest (SEI) Sugar.

TOTAL RAW SUGAR PRODUCTION	
SUPPLIER EI SUGAR	GROWER EI SUGAR

How outcomes under the RSSAs affect Growers contracted to supply cane to a Supplier is determined by the terms of the relevant agreement(s) between Growers and the milling company they supply.

The terms of these agreements vary. For example, the price for sugar cane ultimately received by Growers:

- may refer to the net prices or gross prices for one or more pools, or an aggregate of all pools to which the Supplier has allocated Grower EI Sugar under the RSSA; and
- may also be affected by factors unrelated to the RSSA, such as mill administration fees, other local costs or outcomes of the Supplier's domestic sales of raw sugar.

As the agreement(s) between Growers and the milling company they supply may also refer to the terms of the relevant RSSA, QSL recommends Growers reading these materials do so in conjunction with reviewing the details and obligations contained within the relevant agreement(s) between the Grower and the milling company it supplies.

All of the pooling arrangements and options outlined in this Guide are only available through a RSSA and in accordance with the terms of the relevant Supplier's RSSA.

This Guide does not amend or replace the terms of agreements (including Cane Supply Agreements or other agreements between a Grower and a Supplier) or RSSAs, or provide a substitute for reviewing and understanding the terms of such contracts.

Growers should refer to their individual agreement(s) between themselves and the milling company they supply, as this Guide cannot address each Grower's individual agreement or circumstances.

2.0 WHAT IS A POOL AND WHAT TYPE OF POOLS DOES QSL OPERATE?

A pool is a quantity of raw sugar from one or more Suppliers that is priced collectively with the associated costs and revenues shared proportionately. That is, all the pool participants generally receive the same price on a dollar per International Polarisation Scale (IPS) metric tonne (mt) basis (subject to the potential for Supplier-specific costs and adjustments).

Under the RSSAs, Suppliers have the right to elect each season to allocate a quantity, up to their Supplier Economic Interest Sugar, to be placed into a 'Supplier EI Pool'. The purpose of the Supplier EI Pools is to allow a Supplier to directly market its Supplier EI Sugar to its own customers, whilst still using the other services of QSL, including logistics, finance and price risk management.

The remainder of the raw sugar it supplies (including the Growers' EI Sugar) will be marketed by QSL. This raw sugar may be allocated to a number of QSL-marketed pools, with each of the pools representing different pricing and risk-management strategies.

For raw sugar allocated to a Supplier EI Pool:

- the Supplier is responsible for all decisions regarding hedging and foreign exchange cover;
- the Supplier will receive an allocation of storage capacity within the bulk sugar terminals and will need to manage its shipments so as to not use additional capacity;
- the relevant quantity of raw sugar will be sold by QSL to the Supplier (or a nominated related body corporate) under a FOB sales contract, such that the purchaser under that FOB sales contract can directly on-sell the relevant raw sugar to its own customers;
- the Supplier may price up to 65 per cent with QSL of the raw sugar so allocated prior to the Pricing Declaration Date for the season, and the remainder during the season;
- where the Supplier fails to deliver raw sugar allocated to a Supplier EI Pool that has been priced with QSL, the Supplier will be liable for the financial costs of unwinding that pricing; and
- the Supplier EI Pool will receive an allocation from the QSL Shared Pool for its share of RSSA costs.

About QSL's Raw Sugar Supply Arrangements (cont.)

In those QSL-marketed pools where QSL makes the pricing decisions, QSL collectively prices the raw sugar for all participants. This collective approach enables those in the pool to participate in the market over a potentially longer period of time than if they priced themselves.

QSL's marketed pools fall into two categories, Committed and Uncommitted:

1. COMMITTED SUGAR POOLS

These pools require a Supplier to commit to supply a fixed volume of raw sugar before the season commences. A Supplier must supply this raw sugar, regardless of whether the crop volume or quality varies over the course of the season. Because volumes are fixed, the marketing and pricing of raw sugar in these pools may occur before the harvest for the relevant season commences (in some cases, up to three (3) years prior). With the exception of the QSL Harvest Pool, all QSL pools are Committed Sugar Pools. The maximum amount that can be allocated to Committed Sugar Pools by any Supplier is 65 per cent of their export tonnage estimate for a season.

2. UNCOMMITTED SUGAR POOLS

These pools do not carry any obligation for the supply of a specific or minimum volume of raw sugar. These pools are allocated all raw sugar delivered to QSL by a Supplier that is not allocated to Committed Sugar Pools. Because of this, there is an element of production risk present in these pools. Under the current RSSA, the QSL Harvest Pool is the only Uncommitted Sugar Pool offered by QSL for the 2016 Season. While under the RSSA it is a single pool, the pricing outcomes will vary based on whether QSL or a Supplier is the pricing risk manager for the tonnage a Supplier has allocated to the Harvest Pool. As a result, QSL refers separately to the:

- **QSL Harvest Pool:**
In this pool, QSL collectively prices the raw sugar for all participants. A set proportion of raw sugar in this pool is only marketed and priced once delivered to QSL and the exact volume of that season's raw sugar is known. Suppliers must meet their supply obligations to Committed Sugar Pools before they supply any raw sugar to their allocation in the Uncommitted Sugar Pools for a season.
- **Supplier-managed Harvest Pool:**
In this pool, the Supplier makes all of its own pricing decisions on its portion of its Supplier EI Sugar (and Grower EI Sugar for which the Supplier has been appointed as the pricing risk manager) that is subject to production risk. When selling sugar allocated to their Supplier-managed Harvest Pool, Suppliers operate within similar restrictions as QSL. This pool is only available to Suppliers not taking up the option to market their Supplier EI Sugar and is not available for Growers.

3.0 WHAT POOLS DOES QSL OFFER TO SUPPLIERS?

QSL offers a range of pools, each offering different levels of risk, types of price management and volume obligations:

Table 1: Pools offered by QSL

	QSL US QUOTA POOL	QSL GUARANTEED FLOOR POOL	QSL ACTIVELY MANAGED POOL	QSL 2017 2-SEASON FORWARD POOL ¹	QSL HARVEST POOL
Pool Type	Committed	Committed	Committed	Committed	Uncommitted
Pool Objective	Encompasses the returns for sales made by QSL into the USA under the Tariff Rate Quota issued for the importation of raw sugar.	Provides a guaranteed minimum return with the potential for higher returns. Altered Advances rate (at 90% by 31.12.16).	Targets the best return over the season by pricing more frequently as short-term market opportunities arise.	Priced over 2 seasons and targets the best return for raw sugar to be produced in the 2017 Season.	Designed to manage possible production fluctuations across the 2016 Season.
Pricing Season	2016 Season	2016 Season	2016 Season	2016 and 2017 Seasons	2016 Season

¹ This pool is only available to those Suppliers currently contracted to QSL beyond the 2017 Season.

The pooling system also provides mechanisms for Suppliers to manage their own price risk and this includes the following QSL-marketed but Supplier-managed pools:

Table 2: List of Supplier-managed Committed Sugar Pools

COMMITTED SUGAR POOLS	PRICE MANAGEMENT	SUPPLY OBLIGATION
Fixed Price Forward Contract	Supplier directed	Fixed
In-Season Fixed Price Contract	Supplier directed	Fixed
Target Price Scheme	Supplier directed	Fixed
Supplier Pricing Scheme	Supplier directed	Fixed
Long Term Contract (LTC) Pool	Supplier elected	Fixed

The pools in Table 2 are a separate Committed Sugar Pool for each Supplier.

Table 3: Supplier-managed sugar in an Uncommitted Sugar Pool

UNCOMMITTED SUGAR POOL	PRICE MANAGEMENT	SUPPLY OBLIGATION
Supplier Risk-Managed Harvest Pool Sugar	Supplier directed	Unfixed

Only Suppliers who have no raw sugar allocated to a Supplier EI Pool are entitled to elect to be the risk manager for a portion of the QSL Harvest Pool. This portion is for a volume up to the aggregate of the Supplier EI Sugar allocated to the QSL Harvest Pool and the Grower EI Sugar for which the Supplier will be the risk manager pursuant to cane supply or other agreements between the Supplier and Growers.

Suppliers may use these mechanisms to run their own local pools, or offer Growers mechanisms to forward price their cane, and to manage the price risk for all of their Supplier EI Sugar. Suppliers may elect to offer some or all of these pool and pricing mechanisms to their Growers as part of local cane pricing arrangements.

QSL is not a party to agreements with Growers (including the Cane Supply Agreements) and does not play a role in the election of which pools are offered to Growers by a Supplier.

From time to time QSL may offer new pools or update information about existing pools. QSL encourages Suppliers and Growers to check QSL's website (www.qsl.com.au) regularly to ensure access to up-to-date information on QSL's pools.

4.0 WHEN DO SUPPLIERS ELECT WHICH POOLS TO PARTICIPATE IN?

Each year Suppliers will make two declarations:

1. Marketing Declaration
2. Pricing Declaration

The purpose of the Marketing Declaration is for each Supplier to inform QSL how much of the Supplier EI Sugar will be marketed by the Supplier itself and how much of its Supplier EI Sugar will be marketed by QSL. Grower EI Sugar under the current RSSA arrangements is always marketed by QSL. The Marketing Declaration Date for a season's raw sugar production is the last working day in June in the previous calendar year, e.g. the Marketing Declaration Date for the 2016 Season was 30 June 2015. QSL may change this date with the agreement of Suppliers.

Following the Marketing Declaration Date, Suppliers are required to declare their forecast export tonnages to be supplied to QSL. The Pricing Declaration must be made by the Pricing Declaration Date, which is the last business day in February in the year harvesting commences. The purpose of the Pricing Declaration is to advise QSL how a Supplier's sugar is to be priced (for the raw sugar the Supplier has allocated to be marketed by QSL). For the 2016 Season, the Pricing Declaration Date is 29 February 2016. Growers may be required by their milling company to make their nominations earlier than this date for administrative reasons.

A portion of this declared export tonnage to be marketed by QSL (including the Grower EI Sugar) from each Supplier is allocated to the QSL US Quota Pool based on an individual Supplier's quota entitlement. The QSL US Quota Pool is a Committed Sugar Pool.

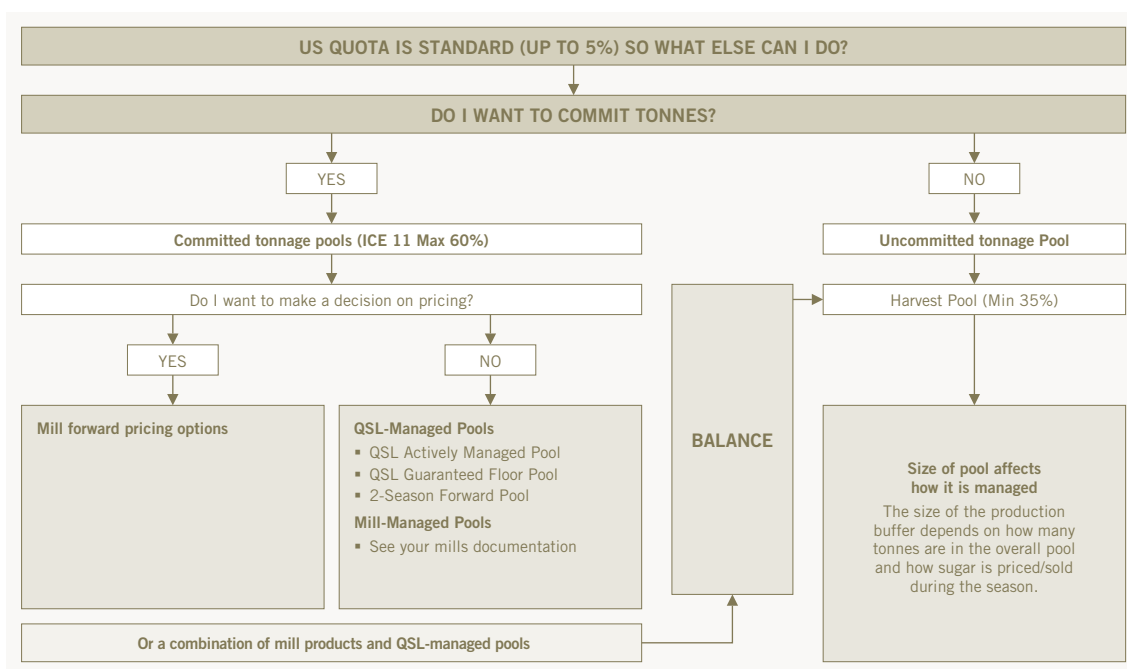
About QSL's Raw Sugar Supply Arrangements (cont.)

The remainder of a Supplier's forecast export tonnage to be marketed by QSL is nominated by the Supplier into a range of Committed Sugar Pools and the QSL Harvest Pool.

At the Pricing Declaration Date, Suppliers can have a maximum of 65 per cent of their total estimated QSL-marketed tonnage allocated to Committed Sugar Pools, with the remainder of their total estimated QSL-marketed tonnage being allocated to the QSL Harvest Pool. The QSL Harvest Pool provides a buffer against possible production fluctuations in each Supplier's estimated volumes for the current season.

This buffer is an important feature of the risk management structure of the pooling system, which is explained in further detail in Chapter 3 – Risk management. In making a pricing decision, Growers should decide whether they want to control their pricing decisions, have the pricing decisions made for them in a pool environment or a combination of both.

Figure 1: Supplier (grower) decision-making for raw sugar allocation in respect of QSL-marketed pools



5.0 HOW IS THE PRICE FOR EACH POOL DETERMINED?

QSL pays Suppliers a net price per metric tonne (mt) IPS of raw sugar in each pool. This net price encompasses:

- a gross price element; and
- a QSL Shared Pool element.

5.1 GROSS PRICE ELEMENT

For the majority of pools, the gross price element represents the market price of raw sugar in Australian dollars 'at the ship's rail', i.e. before any costs of storage/handling prior to shipment and/or destination and regional premiums or discounts have been added or deducted. The exception is the QSL US Quota Pool which is explained in section 10.0 of this Guide.

The gross price element of a pool is determined either from a futures market or by direct negotiation with the end user/customer.

The majority of QSL's pools have their gross price determined from the Intercontinental Exchange No. 11 (ICE 11) futures market. The ICE 11 (previously known as the New York CSCE) is a long-standing and well-regarded futures market. It lists futures and options contracts for raw sugar, which are considered to be the world benchmark for determining the value of raw sugar.

Contracts traded on the ICE 11 also enable the transfer of price risk between various parties, which in turn gives QSL the ability to offer a number of mechanisms for Suppliers to manage raw sugar price volatility. The gross price for QSL's ICE 11 based pools is the value of raw sugar in a pool that can be price-managed through hedging on the ICE 11. ICE 11 values are denominated in United States dollars (\$US) and are converted into an Australian dollar (\$A) return.

QSL's exposure on the futures market is governed by when raw sugar is shipped, relative to the underlying futures delivery month. A buyer of a futures contract is purchasing the right to a 10-week shipping window commencing on the first day of the futures delivery in a standardised ICE 11 futures contract, within which the buyer of the futures contract must present their vessel for loading at the seller's port. In practice, the shipping windows differ reflecting the available window for the seller and the specific shipment required by the buyer. More detail on the operation of the ICE 11 futures market can be found in Chapter 2- Sugar Pricing and the Futures Market.

For those pools where gross price is determined from the ICE 11, pricing will be managed under the direction of either the Supplier (i.e. the Supplier themselves or a risk manager appointed by the Supplier to make pricing decisions) or QSL. Hence when electing to participate in particular pools the Supplier (and, indirectly, Growers) is choosing how the portion of their income derived from the futures market will be managed. Supplier EI Pools may also be priced on the ICE 11 market.

The US Quota Pool currently has its gross price derived from the Intercontinental Exchange No. 16 (ICE 16) futures market. The ICE 16 futures market contract is different from the ICE 11 as the ICE 16 reflects the value of raw sugar delivered 'Free In Store' whereas the ICE 11 futures represents the price at the 'ship's rail' in the seller's country of origin. The ICE 16 is also denominated in US dollars and is converted into an Australian dollar return. The US market is regulated through the use of import quotas and therefore raw sugar in this pool is priced differently from that in ICE 11 pools. QSL currently manages the pricing for the QSL US Quota Pool in all cases.

As the amount of US quota a Supplier has is determined by the Australian Federal Government, the tonnage a Supplier is allocated is effectively a fixed amount and only changes if there is an overall increase in Australia's allocation of US quota (regardless of movements in a Supplier's delivery estimate during the season). Traditionally, Suppliers and their Growers have shared the returns from their US quota allocation pro-rata, by assigning their US quota to the QSL US Quota Pool. From the 2013 Season, Suppliers have had the option to market a portion of their US quota allocation, equivalent to their Supplier Economic Interest proportion. If a Supplier elects to market this proportion, the balance of its US quota (equivalent to the Grower Economic Interest proportion) will be marketed by QSL in the QSL US Quota Pool. For the QSL US Quota Pool, the fixed nature of the US quota system, combined with the generally higher prices achieved, means that under the RSSA, the US quota is treated as a Committed Sugar Pool. More information about the QSL US Quota Pool can be found in the Overview in section 10.0 of this Guide.

Long-Term sales-Contract (LTC) pools are pools where the gross price is derived from a Long-Term sales Contract (for future seasons) where the price is fixed through direct negotiation with a customer. Participation in LTC pools is voluntary. Where a Supplier elects to participate in a LTC it is effectively pricing a fixed amount of tonnage for one or more future seasons. Suppliers typically participate in LTCs to gain access to additional forward pricing that may not be able to be obtained from the ICE 11 or Over-the-Counter (OTC) market.

5.2 QSL SHARED POOL ELEMENT

The QSL Shared Pool element of a pool price is made up of a pool's share of:

- export sales revenue not directly derived from the outright ICE 11 or ICE 16 pricing decisions (e.g. premiums negotiated directly by QSL with the customer for features such as raw sugar quality and on-time delivery. Premiums are covered in detail in section 8.0 of this Guide);
- the direct cost of marketing the raw sugar (e.g. freight); and
- costs of running the QSL system (e.g. finance and the costs of operating the bulk sugar terminals).

All pools, including the Supplier EI Pools, receive an allocation from the QSL Shared Pool (which is a pool to which costs and revenues are allocated, not raw sugar) regardless of how the gross price is determined. More information about the QSL Shared Pool can be found in the Overview in section 20.0 of this Guide.

The overall pooling environment is summarised in Figure 2.

About QSL's Raw Sugar Supply Arrangements (cont.)

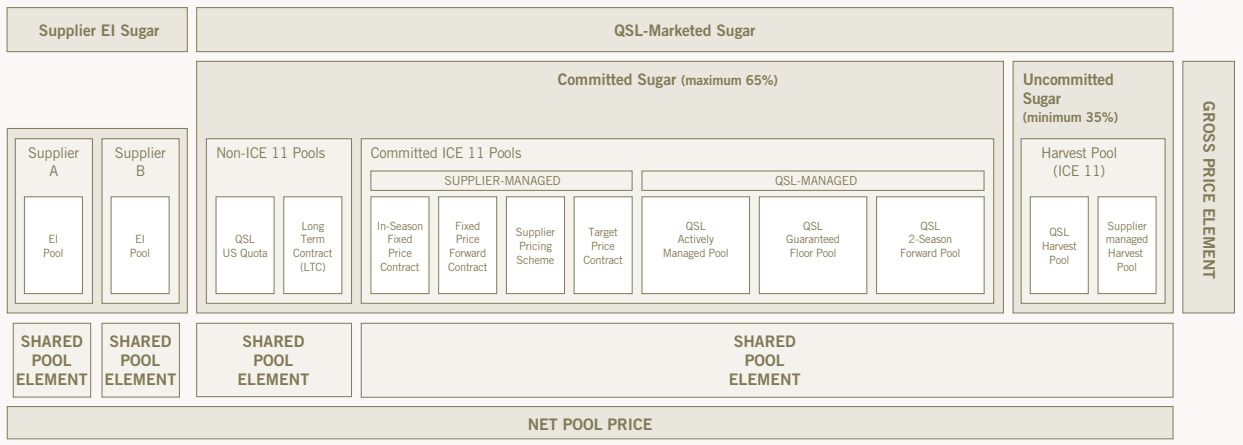


Figure 2: Pooling structure

6.0 HOW DO PAYMENTS TO SUPPLIERS OCCUR?

QSL pays its Suppliers in instalments throughout the year, both in and out of the harvesting season.

The first instalment is paid once harvesting starts and raw sugar is delivered to a bulk sugar terminal. This initial payment is usually paid on a Wednesday for all deliveries up to midnight of the preceding Sunday. Top-up payments are made at periodic intervals during the season.

This system of payments is commonly referred to as 'Advances' or Advance Payments. The term 'Advances' reflects the fact that QSL funds the payments to Suppliers in advance of receiving revenue from customers for raw sugar sales.

The level and timing of Advances is determined by the QSL Board (subject to a limit on the initial Advances rate of 60 per cent of QSL's weighted average forecast final price for all pools), taking into consideration:

- expected cash flow from shipments of raw sugar to customers;
- expected rates of deliveries from Suppliers to bulk sugar terminals;
- the margin calls QSL may need to pay on forward pricing; and
- QSL's available borrowing facilities.

The final payment to Suppliers is normally made in July of the year after harvesting commences (e.g. the final payment for the 2014 Season was made in July 2015).

Since 2012, QSL's Advance Payments program has been a proportional system. This means that while the percentage increment of each Advance Payment is the same for all pools, the actual advance rate paid (per metric tonne IPS) differs between Suppliers, depending on QSL's forecast of the estimated net pool price of each pool at the time the Advance Payment is made, and the tonnage allocated to individual pools by each Supplier.

An example is provided in Table 4 for two Suppliers where the initial delivery advance percentage is assumed to have been set by QSL at 52 per cent.

Table 4: Example of the Advances Payments program

TOTAL RSSA				SUPPLIER A			SUPPLIER B		
	TONNES	NET IPS PRICE	% OF POOL	TONNES	NET IPS PRICE	% OF POOL	TONNES	NET IPS PRICE	% OF POOL
Fixed Price Forward	120,209	\$547.21		94,562	\$563.00		25,647	\$489.00	
Supplier Pricing Scheme	243,951	\$400.00		243,951	\$400.00				
QSL Committed Pool	61,578	\$520.00		30,789	\$520.00		30,789	\$520.00	
QSL Harvest Pool	229,244	\$547.00		198,855	\$547.00		30,389	\$547.00	
Total	654,982	\$489.75		568,157	\$485.08		86,825	\$520.29	
Initial advance rate		\$255.00	52%		\$252.00	52%		\$271.00	52%
INCREASE									
INCREASES	\$A	NET IPS PRICE	% OF POOL	\$A	NET IPS PRICE	% OF POOL	\$A	NET IPS PRICE	% OF POOL
Sep-14	\$15.00	\$270.00	55%	\$15.00	\$267.00	55%	\$16.00	\$287.00	55%
Oct-14	\$10.00	\$280.00	57%	\$10.00	\$277.00	57%	\$11.00	\$298.00	57%
Nov-14	\$15.00	\$295.00	60%	\$15.00	\$292.00	60%	\$16.00	\$314.00	60%
Dec-14	\$15.00	\$310.00	63%	\$15.00	\$307.00	63%	\$16.00	\$330.00	63%
Jan-15			70%			70%			70%
Feb-15			75%			75%			75%
Mar-15			85%			85%			85%
Apr-15			87%			87%			87%
May-15			90%			90%			90%
Jun-15			95%			95%			95%
Final			100%			100%			100%

The timing of Advance Payments and the amount paid by Suppliers to Growers may differ from those paid by QSL to Suppliers, depending on the terms of local agreements between Growers and Suppliers.

CHAPTER 2

Sugar pricing and the Futures Market

7.0 SUGAR PRICING AND THE FUTURES MARKET

Queensland's raw sugar producers are highly exposed to fluctuating world prices for raw sugar. Suppliers and Growers can elect to manage this exposure to price risk themselves through Supplier-managed pools or elect QSL to manage this exposure with the objective of maximising possible returns, within the confines of QSL's risk management policies.

A key feature of QSL's risk management approach is the use of futures markets. This chapter provides an overview of futures contracts and futures market and shows how they work. It also illustrates how these markets interact with QSL's sales program. This will help Growers to understand how revenue from QSL's sales of raw sugar flows back through the RSSA pools.

7.1 WHAT IS A FUTURES CONTRACT?

A futures contract is a legally binding agreement made on a futures exchange to buy or sell a commodity or financial instrument for delivery sometime in the future at a specified price. Futures contracts are standardised according to quality, quantity, delivery time and location, with the only variable being the price, which is determined on an exchange. In addition to raw sugar, futures contracts exist for a range of other products such as gold, wheat, wool, metals, oil and financial instruments.

7.2 FEATURES OF A FUTURES MARKET

One of the key features of futures markets is that they allow the transfer of risk between market participants to suit the needs and requirements of those participants. To develop an understanding of how this occurs, it is helpful to look at the roles played by different market participants and their attitudes towards price risk.

Market participants

All futures market participants can be divided into two broad categories:

1. Hedgers
2. Speculators

Hedgers

Hedgers have an exposure to the underlying physical market for the commodity, in this case the market for raw sugar. They can be producers, traders or consumers of physical raw sugar. A hedger uses the futures market to protect, or hedge, themselves from adverse changes in the price of the underlying commodity. Futures markets allow producers and consumers to set the price of their commodity independent of the sale of the physical product. QSL is a hedger.

What is a hedge?

Hedging involves the buying or selling of a futures contract to balance an anticipated transaction in the underlying physical or cash market. This allows a producer or consumer to lock in the price that they will receive from the sale of the physical commodity prior to or after the actual transaction taking place. This effectively reduces the risk created by potential changes in the price of the commodity.

Why hedge?

The main reason producers and consumers hedge is to reduce the risk of changes in the prices that they will receive or pay for a commodity. Producers face the risk that the price of the commodity they produce will fall in the future, reducing the revenues they receive. Consumers, on the other hand, are concerned that the price of a commodity will rise in the future and increase their costs.

7.2 FEATURES OF A FUTURES MARKET (CONT.)

Why hedge? (cont.)

When pricing raw sugar, QSL has two choices:

1. wait until the raw sugar is sold to the customer and take the price available at the time; or
2. use the futures market to lock in the price ahead at a different time to the physical sale.

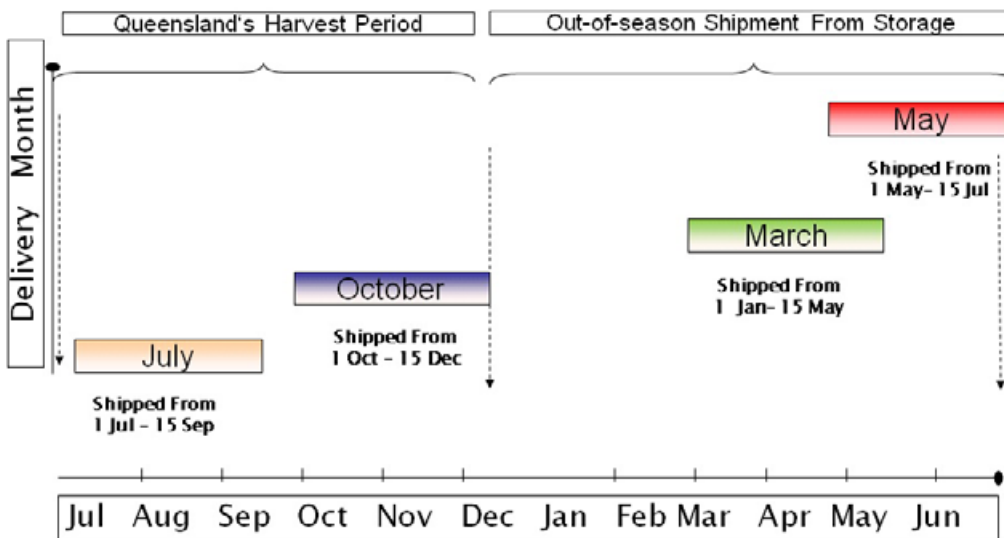
Hedging using futures contracts allows producers and consumers to lock in a certain price and transfer the risks involved with fluctuating prices to other futures market participants.

By selling a futures contract QSL can lock in prices for raw sugar sales prior to the sale and shipment of the raw sugar to the customer. This reduces exposure to a potential fall in prices before being able to make a sale to a customer.

There are other benefits to hedging for Queensland Suppliers and Growers. Queensland's harvesting and crushing season extends for several months. Storage capacity and customers' demands dictate that the shipment and delivery of raw sugar produced by the industry must be allocated over a period of 12 months or more. Pricing this production over several futures delivery months enables this to happen.

The relationship between the shipment and delivery periods for physical raw sugar and the futures delivery months that QSL prices against is displayed in Figure 3.

Figure 3: Typical delivery periods for ICE 11 futures contracts



These periods differ from the standard ICE 11 delivery terms, reflecting the specific shipment times required by the buyer and sellers.

Futures delivery conditions

An ICE 11 futures contract is a standardised contract which prices the physical delivery of raw cane sugar, Free-on-Board (FOB) the receiver's vessel in a port within the country of origin of the raw sugar. This means the price includes the cost of the seller loading the buyer's vessel under a set of standard conditions. Each contract month quoted represents a 10-week delivery window in which the buyer must present their vessel for loading by the seller. The futures contract month used to determine the ICE 11 component of the sales price to the customer will reflect the period when the raw sugar is to be shipped.

Sugar pricing and the Futures Market (cont.)

7.2 FEATURES OF A FUTURES MARKET (CONT.)

Speculators

Speculators are involved in the futures market solely to profit from movements in prices. They are not necessarily interested in which direction the market moves because they are prepared to enter the market either as buyers or sellers to capitalise on price changes. Speculators in the futures market are not exposed to the underlying physical commodity and, for that reason, only have a limited interest in its absolute price.

Transfer of price risk

Speculators have a different attitude towards price risk and this allows them to play a crucial role in the operation of the futures market. Hedgers are concerned with reducing price risk and increasing price certainty. Speculators, on the other hand, want to increase their exposure to the risk of fluctuating prices as this affords them an opportunity to profit, provided they can correctly judge the direction of any price changes. Interaction between hedgers and speculators allows risk to be transferred from those who don't want it to those who do.

Without the involvement of speculators, producers and consumers who use the futures market only for hedging purposes would struggle, at times, to buy or sell futures. It is likely that producers would be unwilling to want to sell at the same time or price that the consumer wanted to buy and vice versa. Speculators help to bridge this gap.

The active participation of speculators in futures markets makes buying and selling futures contracts easier to perform. Because speculators are not interested in the absolute prices but only price movements, they are more likely to be willing to take the other side of a transaction if they believe the market may move in their favour. This allows producers and consumers (hedgers) to reduce risk, effectively transferring the risk to the speculators.

The availability of speculators also adds to market volume and liquidity, making it less likely that individuals may be able to dominate the market.

Using futures contracts to manage price risk – A simple hedge

QSL has raw sugar it wishes to sell to customers later in the season. QSL wants to protect itself from a fall in raw sugar prices prior to being able to make a sale. In a simple hedge, a producer will sell futures contracts to lock in the price of a sale they will make to customers in the future to protect against a price fall. They will buy the futures back when they are actually ready to sell to the customer. In the scenario in Figure 4, set in November 2015, QSL needs to hedge 1000 tonnes of raw sugar which it anticipates will be sold for shipment to customers in March 2016.

Figure 4: Example scenario – November 2015

QSL has taken out foreign exchange cover at $\$A1 = \$US1.02$ for the period. That is, for the example one Australian dollar buys 102 US cents.

QSL wishes to hedge 1,000 tonnes of raw sugar.

ICE 11 March 2016 futures price = 20.82 US c/lb ($\times 22.046/1.02 = \$A450/\text{tonne}$).

QSL sells 20 ICE 11 March 2016 futures contracts (which represents 20 futures contracts = 20 lots = 1,000 tonnes) to hedge the 1,000 tonnes. Note: 1 US c/lb = $\$US22.046/\text{tonne}$.

7.2

FEATURES OF A FUTURES MARKET (CONT.)

Scenario outcome 1 – Raw sugar price weakens

The market for raw sugar weakens from 20.82 US c/lb (\$A450/tonne) to 18.51 US c/lb (\$A400/tonne).

Table 5: Example scenario – using futures contracts (outcome 1)

DATE	CASH/PHYSICAL MARKET	FUTURES MARKET
Nov 2015	20.82 US c/lb (or \$A450/tonne) Value of 1,000 tonnes in the cash/physical market = \$A450,000	QSL sells 20 ICE 11 March 2015 futures at 20.82 US c/lb or \$A450/tonne Value of futures contracts = \$A450,000
Mar 2016	QSL sells 1,000 tonnes of raw sugar at 18.51 US c/lb (or \$A400/tonne) to customer Cash proceeds from customer = \$A400,000	QSL buys 20 ICE 11 March 2015 futures at 18.51 US c/lb or \$A400/tonne Value of futures contracts = \$A400,000
Result	Cash/physical market = QSL only receives \$A400,000 as the price has weakened from \$A450/tonne to \$A400/tonne	Futures profit = sold contracts – buy contracts QSL receives futures profit = \$A50,000 Gain of \$A50,000 made in the futures market
Net result	QSL hedged the price at 20.82 US c/lb or \$A450/tonne and thus has received \$A450,000 for the sale of 1,000 tonnes of raw sugar. Total Income = Customer invoice proceeds (cash/physical market) + futures market (profit) = \$A400,000 + \$A50,000 = \$A450,000 Cash of \$A400,000 was received from QSL's customer and \$A50,000 was received from the futures exchange for the futures profit.	

Scenario outcome 2 – Raw sugar price strengthens

The market for raw sugar strengthens from 20.82 US c/lb (\$A450/tonne) to 23.13 US c/lb (\$A500/tonne).

Table 6: Example scenario – using futures contracts (outcome 2)

DATE	CASH/PHYSICAL MARKET	FUTURES MARKET
Nov 2015	20.82 US c/lb (or \$A450/tonne) Value of 1,000 tonnes in the cash/physical market = \$A450,000	QSL sells 20 ICE 11 March 2015 futures at 20.82 US c/lb or \$A450/tonne Value of futures contracts = \$A450,000
Mar 2016	QSL sells 1,000 tonnes of raw sugar at 23.13 US c/lb (or \$A500/tonne) to customer Cash proceeds from customer = \$A500,000	QSL buys 20 ICE 11 March 2015 futures at 23.13 US c/lb or \$A500/tonne Value of futures contracts = \$A500,000
Result	Cash/physical market = QSL receives \$A500,000 as the price has strengthened from \$A450/tonne to \$A500/tonne	Futures loss = sold contracts – buy contracts QSL incurs futures loss = \$A50,000 Loss of \$A50,000 incurred in the futures market
Net result	QSL hedged the price at 20.82 US c/lb or \$A450/tonne and thus has received \$A450,000 for the sale of 1,000 tonnes of raw sugar. Total Income = Customer invoice proceeds (cash/physical market) + futures market (loss) = \$A500,000 + (-\$A50,000) = \$A450,000 Cash of \$A500,000 was received from QSL's customer, but \$A50,000 had to be paid to the futures exchange for the futures loss.	

Sugar pricing and the Futures Market (cont.)

7.2 FEATURES OF A FUTURES MARKET (CONT.)

The example scenario outcomes show that even when the market moves, QSL will receive the price at which it hedged the sale of its raw sugar. This is because a rise in the futures market price for the commodity will create a loss which will be offset by an equivalent gain in the cash or physical market. Conversely, a fall in the futures market will create a profit which will be offset by an equivalent loss in the cash or physical market.

Under both scenarios regardless of the sales price achieved when making the sale to the customer, QSL received the exact value of its original hedge. The outcome in both scenarios ignores physical and polarisation premiums.

Close out of hedge position

In the example scenario it is shown that QSL buys futures contracts to 'close out' its position on the futures market at exactly the time the sale is made to the customer.

In the raw sugar trade a number of mechanisms are used whereby the buyer of the physical raw sugar in the cash or physical market instructs the seller of the physical raw sugar to execute a stream of futures contracts for the equivalent amount of physical raw sugar being purchased. The futures contracts bought are used by the seller to close out its hedged position. The price at which the buyer executes these futures contracts will become the price on the invoice when the raw sugar is shipped, providing a perfect hedge for both parties. The vast majority of QSL export sales are made using such mechanisms, the typical ones being Against Actuals (AAs) and Buyer Executable Orders (BEOs). The futures contracts that arise from these mechanisms are used to close out the hedging done in all QSL ICE 11 pools (both Committed Sugar Pools and the QSL Harvest Pool).

Fixed price sale

The example is also typical of where a fixed price sale is made to a customer where the ICE 11 element would still be derived from the ICE 11 futures market (i.e. it assumes that futures can be bought at exactly the price of the sale that is made to the customer).

Where the price of the futures contract bought differs from the price at which the cash or physical sale is made it will reduce or increase the value of the hedge. Under the RSSAs, where there is a difference in these prices, the value of the difference is allocated to the QSL Shared Pool.

7.3 FOREIGN EXCHANGE MANAGEMENT

The futures and sales contracts used by QSL to price and sell raw sugar are denominated in \$US while Suppliers and Growers are paid in \$A. A lower \$A/\$US exchange rate is good for an exporter as it delivers a higher \$A return whilst a higher \$A/\$US exchange rate results in a lower \$A return.

For QSL-managed pools, QSL is responsible for managing the foreign-exchange risk of converting \$US returns into \$A returns.

8.0 PHYSICAL SALES AND DETERMINING THE SALE PRICE FOR THE CUSTOMER

The example scenario in Figure 4 demonstrates how QSL is able to use the futures market to hedge the value of sales of raw sugar before making the sale to the customer. When making the sale to the customer there are other factors, in addition to the futures market price, that are built into the final price the customer pays, such as physical and polarisation premiums. This section discusses how the overall price to a customer is constructed and where the revenue for sales flows through the RSSA pooling system.

8.1 OVERVIEW

QSL generally sells all raw sugar on a cost and freight (CFR) or cost insurance freight (CIF) basis. This means that QSL is responsible for delivering raw sugar to a customer's port and, in the case of CIF, arranging the cargo insurance as well. Selling raw sugar on a delivered basis has been an integral part of QSL's strategy for many years and allows QSL to control the destination of raw sugar and maximise the benefit of the volume of sugar QSL has available to market.

Most other origins sell their raw sugar on a FOB or ex-mill basis to traders. South Africa and Guatemala are the main exceptions, selling some of their product on a CFR or CIF basis.

The invoice price (usually in \$US) for a QSL export cargo of raw sugar (other than those sold pursuant to an LTC) consists of three elements:

- 1) ICE 11 futures price (ICE 16 futures price in the case of the QSL US Quota Pool);
- 2) physical premium; and
- 3) polarisation premium.

8.1.1 ICE 11 futures price element

The ICE 11 futures price element is generally the largest component of the invoice price. The ICE lists futures and option contracts for raw sugar, which are considered to be the world benchmark for determining the value of raw sugar. As noted in Chapter 2 – Sugar pricing and the Futures Market, in addition to providing a price discovery mechanism, contracts traded on the ICE 11 also facilitate the transfer of price risk between various parties.

The ICE 11 futures contract prices are influenced by the basic production, consumption and flows of trade that drive the underlying physical market for raw sugar. Futures prices increase or decrease in accordance with all known information, and future expectations, of the physical commodity market.

A customer uses the futures price as an indicator of what they will need to pay, and a seller of how much revenue they will receive. In the majority of cases pricing using futures contracts will be the preferred method of both the customer and QSL, as it allows both parties to set their own final price outcome independently of one another.

The ICE 16 futures contract works in similar fashion but reflects US domestic prices rather than global prices.

Regardless of whether a customer uses AAs/BEOs or fixed price contracts, the ICE 11 market will almost always be used as a reference price during negotiations because it represents the best alternative price for which a customer can purchase raw sugar. A customer can purchase futures contracts and take delivery from the futures market to obtain access to raw sugar for refining. All customers are profit motivated and will look at the most economical alternative source of raw sugar for their refinery.

Sugar pricing and the Futures Market (cont.)

8.1.2 Physical premium element

The physical premium element of an invoice is determined on a contract-by-contract basis by direct negotiation with the customer and by market forces. The value of physical raw sugar above the ICE 11 futures market price will reflect:

- freight;
- regional premium;
- shipping flexibility; and
- the quality attributes (other than polarisation) of any alternative raw sugar available within a shipping period.

A refiner will look to purchase on the basis of the most competitive CFR/CIF delivered price. This value will largely be determined by the location of the next-best alternative raw sugar for the customer and the cost of freight.

By coordinating freight and logistics, QSL is able to achieve attractive freight rates. QSL is well positioned to deliver raw sugar into the Asian region because it is able to obtain more competitive freight rates. Competitors from others exporting regions outside Asia will usually need to pay a higher freight cost. This helps to make Queensland raw sugar more competitive on a total-cost basis to customers within the Asia-Pacific region.

By understanding competitors' freight costs, QSL can also obtain a physical premium above the cost of its own freight. The premium earned will reflect the:

- FOB origin premium of competitors' raw sugar (sometimes referred to as the regional premium);
- difference between competitors' freight costs and QSL's;
- customer's perception of QSL's shipment reliability; and
- differences in raw sugar quality parameters (other than polarisation).

The FOB/regional premium of competitors' raw sugar will reflect:

- the difference in freight for the closest/cheapest raw sugar available within the region and the next-best alternative outside of the region;
- loading terms and timing (how quickly a vessel can be loaded);
- tradability of the raw sugar (whether the raw sugar be re-sold later on); and
- shipment flexibility (how quickly the seller requires the raw sugar to be shipped).

Depending on the time of the year, when QSL sells raw sugar into Asia the competition is typically raw sugar from Thailand. Thailand is located closest to most customers within Asia and, therefore, is likely to be cheapest source of raw sugar within Asia. However, within the Asian region consumption often exceeds the supply which means the Asian region is a deficit region. As a result, raw sugar from Thailand should be worth at least the difference in the cost of freighting raw sugar from the next-best alternative location outside the region. Table 7 demonstrates the theoretical value of Thai raw sugar and Queensland raw sugar based on assumed freight rates to Malaysia, where the next-best alternative raw sugar outside of Asia is Brazil.

Table 7: Illustration of regional premium

ORIGIN	FREIGHT \$US PER MT	FOB/REGIONAL PREMIUM \$US PER MT	CFR PREMIUM PAID BY CUSTOMER	DESTINATION
Brazil	\$30	–	\$30	Malaysia
Thailand	\$13	\$16	\$30	Malaysia
Queensland	\$18	\$12	\$30	Malaysia

8.1.2 Physical premium element (cont.)

Where a region is in deficit the buyer will be forced to pay up to the cost of the next-best alternative from outside the region. In the prior example, (ignoring quality) Suppliers of raw sugar from Thailand and Queensland should be able to earn at least their respective Brazilian freight differentials, as, if a buyer does not buy Queensland or Thai raw sugar, it will need to buy Brazilian raw sugar.

As Thai raw sugar is the most commonly available and competitive source of raw sugar within the Asian region, the FOB value of raw sugar is quoted versus the value of Thai raw sugar at origin. This value is known as the Thailand or Thai Premium, i.e. the value which the buyer will need to pay to acquire Thai raw sugar.

The regional premium QSL should obtain in the example provided in Table 7 will be at least \$12, which is \$4 less than Thailand, reflecting the difference in freight costs between Thailand to Malaysia and Queensland to Malaysia. QSL may be able to negotiate for the customer to pay more than \$12 due to QSL's reputation for reliability and Queensland raw sugar's better overall quality.

The FOB premium of competitors' raw sugar also reflects other factors in addition to the freight rate differentials. The time taken to get a vessel loaded is one of these factors. Traders may pay a premium to get a vessel loaded quickly or will require a discount if significant delays can be expected. Brazilian raw sugar often trades at a discount to the ICE 11 futures market as there are often significant delays to get a vessel loaded in Brazilian ports. Should Brazilian raw sugar be trading at a discount of \$8 per mt the theoretical regional premiums for Thai and Queensland raw sugar would usually be as follows:

Table 8: Regional premiums and regional discounts

ORIGIN	FREIGHT \$US PER MT	FOB/REGIONAL PREMIUM \$US PER MT	CFR PREMIUM PAID BY CUSTOMER	DESTINATION
Brazil	\$30	\$(8)	\$22	Malaysia
Thailand	\$13	\$8	\$22	Malaysia
Queensland	\$18	\$4	\$22	Malaysia

8.1.3 Polarisation premium element

The polarisation premium represents the difference in physical quality attributes of the raw sugar versus the standard quality specification for the ICE 11 contract. The major element of the physical quality attributes is polarisation. The ICE 11 price is based on raw sugar of 96 degrees polarisation. A polarisation premium is charged to account for raw sugar which has polarisation of greater than 96 degrees.

The standard polarisation scale used by most customers to calculate premiums is the International Polarisation Scale under the Sugar Association of London rules. This is illustrated in Table 9.

Table 9: International Polarisation Scale

MIN DEGREES	MAX DEGREES	PERCENTAGE PRO-RATA FOR EACH DEGREE
96.00	97.00	1.50%
97.00	98.00	1.25%
98.00	99.00	1.00%
99.00	99.30	0.30%

Raw sugar shipped to a customer is analysed to determine the average polarisation of the cargo. If the average polarisation is measured at 98.95 degrees polarisation, the FOB price of the cargo will be adjusted upwards by 3.7% (1.5% + 1.25% + 0.95%), reflecting the value of the polarisation above 96 degrees.

The physical and polarisation premiums are distributed to Suppliers through the QSL Shared Pool.

Sugar pricing and the Futures Market (cont.)

8.2 A TYPICAL RAW SUGAR SALE

The scenario below demonstrates the mechanics of a typical raw sugar sale and how the value is distributed.

Figure 5: Example scenario – raw sugar sale

Example scenario:
 Korean refiner XYZ Limited approaches QSL for a 30,000mt cargo for March 2016/ April 2016 shipment. As well as seeking an offer from QSL, it is expecting an offer of Central American raw sugar.

ICE 11

The offer price for this potential sale would be prepared as follows:

Figure 6: Example scenario offer price

Example scenario:
 XYZ Limited has requested an offer for a 30,000mt cargo for March 2016/April 2016 shipment. As described in Chapter 2 – Sugar Pricing and the Futures Market of this Guide, this shipment would be priced on the basis of the ICE 11 March 2016 futures position.

Competition

From the customer’s requested shipment period QSL is able to determine the next best alternative origin of raw sugar:

Figure 7: Example scenario production periods for exporters of cane sugar

Example scenario:

	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
Queensland												
NNE Brazil												
CS Brazil												
Thailand												
Guatemala												
South Africa												

The table shows in which months of the year raw sugar is produced in the main raw sugar-producing countries. Knowing the customer, its history and its refinery, QSL is able to determine the next best alternative for XYZ Limited will be raw sugar from Guatemala.

8.2 A TYPICAL RAW SUGAR SALE (CONT.)

Freight

With the destination and the timing for the shipment known, QSL is able to determine the freight rate.

Figure 8: Example scenario freight rate calculation

Example scenario:

The freight rate from Queensland to Korea is \$US13.50 per mt for shipment in the period March 2016 to 30 April 2016. From Guatemala for the same period the freight rate is \$US25.00 per mt.

Leaving quality differences aside, this means that QSL estimates it can deliver raw sugar to XYZ Limited for \$US10.50 per mt less than the next best alternative.

Physical premium

QSL will factor in the difference in freight rates as a premium in its offer (for the physical premium component of the invoice price).

Figure 9: Example scenario offer to customer

Example scenario:

The offer to the customer may be:

Tonnage	30,000
Delivery period	1 March – 30 April 2016
Futures based	March 2016
Pricing method	BEO
Number of futures contracts	591 lots
a) QLD freight	\$US13.50
b) Physical Premium	\$US10.00
Polarisation	Basis 96 degrees

Polarisation premium

The polarisation premium is determined from the base price of the sale. The base price incorporates the futures base price and the physical premium. The relevant IPS percentage is applied to the base price to determine the polarisation premium. The polarisation premium for the scenario example is detailed under the 'Physical proceeds' section.

Sugar pricing and the Futures Market (cont.)

8.2 A TYPICAL RAW SUGAR SALE (CONT.)

Physical proceeds

The physical proceeds of the sale (assuming such an offer were accepted) would be determined as illustrated in Table 10.

Example scenario:

The futures base price element of the invoice is determined by XYZ instructing QSL to buy 591 lots of futures contracts (BEOs). 591 ICE 11 futures contracts equate to 30,000 mt. The futures are executed at 18.00 US c/lb, and the polarisation that was tested on loading is 98.95 degrees, QSL would invoice XYZ Limited for the following:

Table 10: Example scenario invoice

CONTRACT TERMS:			
Tonnage	30,000		
Delivery period	1 March 2016 – 30 April 2016		
Futures based	March 2016		
CFR premium	\$US24.50 per mt		
PROCEEDS			
	US c/lb	\$US per mt	ALLOCATED UNDER RSSA
Tonnage	30,000		
Futures base price	18.00	396.83	ICE 11 pools
Physical premium		10.00	QSL Shared Pool
Base price		406.83	
Plus pol premium			
96 – 97 degrees	1.50%		
97 – 98 degrees	1.25%		
98 – 99 degrees	0.95%		
Total pol premium	3.70% ¹	15.05	QSL Shared Pool
FOB value			
Plus freight		14.50	QSL Shared Pool
CFR/tonne		436.38	
Invoice value (\$US)		13,091,400	

¹ Refer to section 8.1.3 for the calculation of the Pol Premium

The customer will pay QSL \$US13,091,400. A portion of this money is allocated to the QSL-marketed pools which have their gross price derived from the ICE 11 futures market, which covers both Committed Sugar Pools and the QSL Harvest Pool. The remaining balance is allocated to the QSL Shared Pool.

8.2

A TYPICAL RAW SUGAR SALE (CONT.)***Pool allocation – ICE 11 Committed Sugar or QSL Harvest Pool***

The portion of proceeds represented by the futures base price is allocated pro rata to all of the QSL-marketed pools that are hedged on the ICE 11 (i.e. QSL Harvest Pool and the ICE Committed Sugar Pools) that have exposure to the March 2016 futures contract. The allocation of proceeds paid by customers is used to determine the \$US gross price for each pool (the value before it is converted in \$A). The futures contracts executed on instruction of the customer will be used to close out hedging in each of the pools priced on the ICE 11 futures market. The resulting futures gain or loss when added to each pool's share of the proceeds from the customer means the value in the pool represents the original hedged price achieved by the pool.

Assume the following pools have hedged exposures against March 2016 as follows (numbers may be rounded):

Table 11: Hedge value in each pool

POOL	TONNAGE	HEDGE PRICE (US c/lb)	HEDGE VALUE
QSL Actively Managed Pool	15,000	21.00	\$US6,944,490
QSL Harvest Pool	15,000	19.00	\$US6,283,110
Total	30,000		\$US13,227,600

Each pool's futures gain (or loss) is calculated by comparing the futures base price from the customer invoice to the price hedged on the ICE 11 by the pool.

Table 12: Futures gain or loss by pool

POOL	TONNAGE	HEDGE PRICE (US c/lb)	CUSTOMER INVOICE FUTURES BASE PRICE (US c/lb)	FUTURES GAIN LOSS
QSL Actively Managed Pool	15,000	21.00	18.00	\$US992,070
QSL Harvest Pool	15,000	19.00	18.00	\$US330,690
Total				\$US1,322,760

Each pool is allocated a share of proceeds paid by the customer:

Table 13: Allocation of customer proceeds to each pool

	RATE	TONNES	VALUE IN POOL
Revenue			
ICE 11 futures base price	\$US396.83	30,000	\$US11,904,840
Pool allocation:			
QSL Actively Managed Pool		15,000	\$US5,952,420
QSL Harvest Pool		15,000	\$US5,952,420

Sugar pricing and the Futures Market (cont.)

8.2 A TYPICAL RAW SUGAR SALE (CONT.)

Pool allocation – ICE 11 Committed Sugar or QSL Harvest Pool (cont.)

When the pools' share of the customer proceeds are added to their futures gain (loss), they are left with their original hedged values.

	(1) SHARE OF CUSTOMER PROCEEDS FROM TABLE 13	(2) FUTURES GAIN (LOSS) FROM TABLE 12	VALUE IN POOL (1) + (2) WHICH IS THE SAME AS TABLE 11
QSL Actively Managed Pool	\$US5,952,420	\$US992,070	\$US6,944,490
QSL Harvest Pool	\$US5,952,420	\$US330,690	\$US6,283,110
Total	\$US11,904,840	\$US1,322,760	\$US13,227,600

Pool allocation – Shared Pool

The physical premium, polarisation and the actual freight expense for delivery of the raw sugar to the customer are allocated to the Shared Pool.

Table 14: Example scenario Shared Pool element

	RATE	TONNES	VALUE IN SHARED POOL
Revenue			
CFR premium	\$US24.50	30,000	\$US735,000
Polarisation	\$US15.05	30,000	\$US451,500
Less			
Actual freight paid to ship owner	\$US14.50	30,000	(\$US435,000)
Net value in Shared Pool			\$US751,500

CHAPTER 3

Risk management

9.0 RISK EXPOSURE: RAW SUGAR INDUSTRY RISK

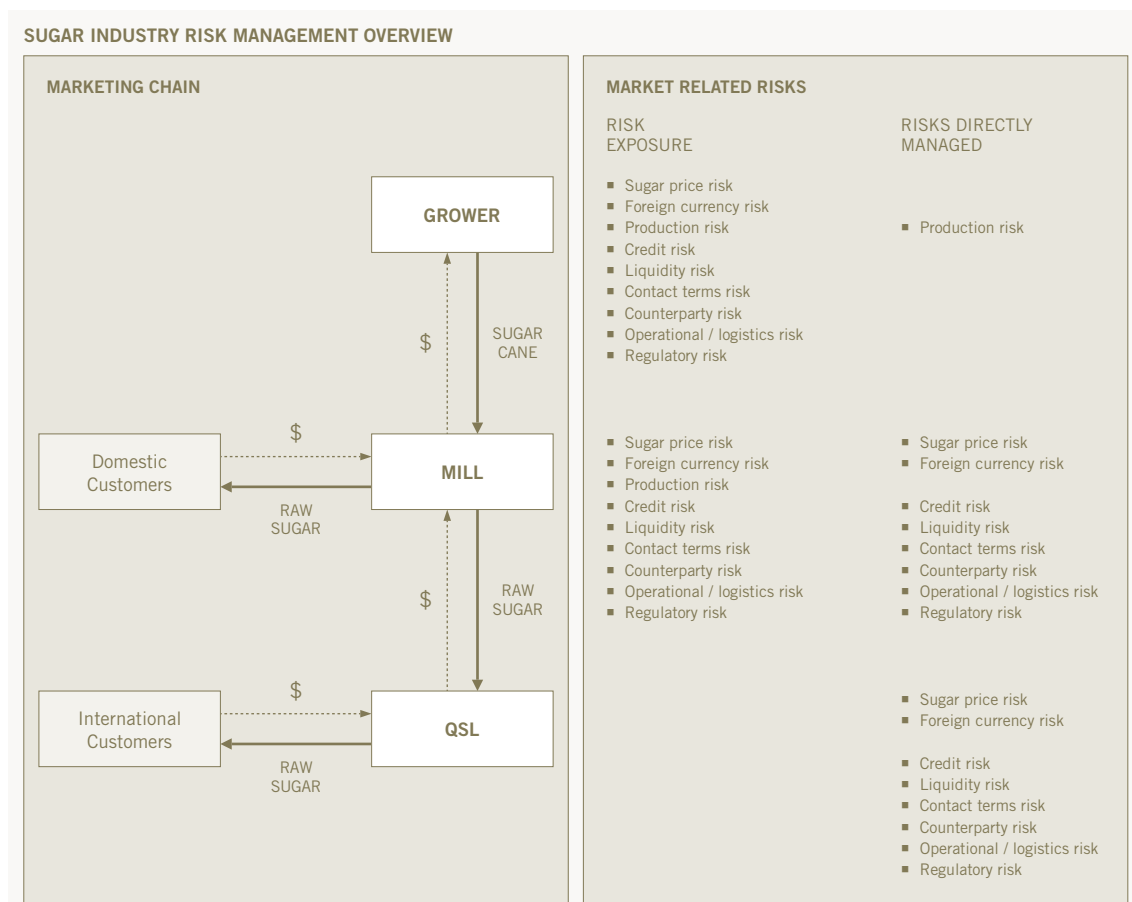
Like other agricultural commodity marketing, raw sugar marketing entails a number of risks for participants. There are explicit production and price risks, and also a number of implicit risks associated with the supply chain.

While there are strategies in place for handling many elements of risk in the QSL pooling system, this cannot and does not provide total mitigation of supply chain risk. Suppliers and Growers need to be mindful of the total risk environment the raw sugar industry operates in when participating in QSL pools (in the case of Suppliers) or making elections under agreements with mill owners they supply (in the case of Growers).

The overview in Figure 10 highlights the large number of risks that Growers and Suppliers are exposed to. This overview shows:

- Growers are exposed to all the risks in producing sugar cane but are able to directly manage their production risk (by choosing how to manage their exposure to production risk, e.g. hedging participation in the QSL Harvest Pool);
- QSL, as a not-for-profit entity that passes through all costs to contracted Suppliers, is a risk manager and is not directly exposed to any risks; and
- Suppliers are exposed to all risks but have the ability to manage these risks with the exception of production risk.

Figure 10: Raw sugar industry risk through the marketing chain



The management of production and price-related risk exposures is further explained in sections 9.3 and 9.4 of this Guide. The other raw sugar industry risks identified in Figure 10 are not discussed in detail in this Guide.

Risk management (cont.)

9.1 PRODUCTION RISK EXPOSURE IN QSL POOLS

Each pool has varying degrees of exposure to production risks, and QSL offers different approaches to the management of risks in each pool. This section outlines general information about risk exposure. A summary of risk elements specific to each pool and of the approach to production and price risk is included in Chapter 4 – QSL Pool Descriptions and Overviews.

9.1.1 Production risk exposure

Under the RSSAs, production risk is shared amongst all Suppliers. For QSL-marketed sugar, this is primarily achieved by putting limits on the amount of raw sugar a Supplier can have allocated to each type of pool at the Pricing Declaration Date (maximum 65 per cent to Committed Sugar Pools and minimum 35 per cent to the QSL Harvest Pool).

The production risk exposure of each pool depends on whether it is a Supplier EI Pool (where the Supplier bears all of the production risk) or, for QSL-marketed pools, whether it is a Committed Sugar Pool or the QSL Harvest Pool.

9.1.2 QSL-marketed sugar – Production risk and the Harvest Pool

The QSL Harvest Pool has direct exposure to production risk because if there is a shortfall in a Supplier's raw sugar deliveries compared to forecast that shortfall will initially impact on any unsold allocation that Supplier has in the QSL Harvest Pool (rather than any Committed Sugar Pool to which the Supplier has allocated raw sugar).

Suppliers' forecasts and estimates of their total export supply tonnage can vary after the Pricing Declaration Date and any changes to these forecasts are added to or subtracted from the tonnage of raw sugar allocated to the QSL Harvest Pool. If a Supplier reduces its total forecast export tonnage, it potentially reduces the overall quantity of raw sugar QSL has to price and market in the QSL Harvest Pool.

This means that the final return for the QSL Harvest Pool is dependent on the actual tonnage of raw sugar delivered by Suppliers after their Committed Sugar Pool tonnage has been allocated.

Due to logistical and marketing constraints, a proportion of the raw sugar in the QSL Harvest Pool may be marketed and shipped within the harvesting season, regardless of the quantity of raw sugar allocated in the other pools.

However, a proportion of raw sugar in the QSL Harvest Pool is also designed to act as a buffer against possible fluctuations in production during the season, and is only priced once the raw sugar has been physically delivered to QSL. A limited quantity of the On-Delivery Component may be physically sold to customers prior to actual delivery to QSL as described in more detail in Chapter 4 – Pool Descriptions and Overview, section 11.0. The amount of sugar allocated to the On-Delivery Component is determined depending on whether:

1. the aggregate of all Suppliers' Committed Sugar for the Season is less than 65 per cent of the aggregate of all Suppliers' initial estimated export tonnage of QSL-marketed sugar; or
2. the aggregate of all Suppliers' Committed Sugar for the Season is equal to 65 per cent of the aggregate of all Suppliers' initial estimated export tonnage of QSL-marketed sugar.

The QSL Harvest Pool On-Delivery Component under the first scenario is 25 per cent of the QSL-marketed sugar, unless storage constraints do not enable this level of storage, in which case the On-Delivery Component is equal to the maximum available storage in the bulk sugar terminals given planned out-of-season sales and storage capacity allocated to Suppliers marketing their Supplier EI Sugar.

The QSL Harvest Pool On-Delivery Component under the second scenario is the maximum available storage in the bulk sugar terminals given planned out-of-season sales and storage capacity allocated to Suppliers marketing their Supplier EI Sugar.

The structure for price risk management on the ICE 11 of the QSL Harvest Pool can be summarised as follows:

- **Storage Peak Tranche** – This component incorporates QSL Harvest Pool raw sugar which must be sold for shipment within season in order to allow for storage constraints. This component may be priced from 1 December 2015.

9.1.2 QSL-marketed sugar – Production risk and the Harvest Pool (cont.)

- **Production Buffer Tranche (On-Delivery Component)** – Some price risk management may occur before physical delivery but only with the use of put options (an option contract giving QSL the right, but not the obligation, to sell a specified amount of raw sugar at a specified price within a specified time) which are not exercised until physical delivery has occurred. Otherwise this component must **only be priced on the physical delivery** of raw sugar to QSL. The quantity of raw sugar allocated to this component is described earlier in this section.
- **Production Buffer Tranche (Discretionary Component)** – This component can only exist under the first scenario described (i.e. Committed Sugar of less than 65 per cent of the aggregate of QSL-marketed sugar) and is the remaining raw sugar (if any) in the QSL Harvest Pool following allocation to the Storage Peak Tranche and the Production Buffer Tranche (On-Delivery Component). This component must only be priced following the Pricing Declaration Date.

In the rare event that the total crop declines by more than the On-Delivery Component after the season starts (i.e. the cane crop declines resulting in a decline in raw sugar supplied to QSL by more than the On-Delivery Component), then there may be cost implications for other pools.

Further detail on the QSL Harvest Pool along with examples of how much tonnage may be in each of the tranches can be found in the Pool Description for this pool in section 11.0 of this Guide.

9.1.3 Production risk and Committed Sugar Pools

The full quantity of raw sugar allocated to Committed Sugar Pools must be supplied to QSL by the Supplier. If a Supplier's export tonnage estimate drops below the amount allocated to the Committed Sugar Pools and the necessary corrective action taken by QSL results in a loss, the Supplier must financially compensate QSL for the shortfall. This compensation is used to ensure that other Suppliers' interests in Committed Sugar Pools are not financially affected by the shortfall.

This obligation to provide financial compensation means a Supplier's exposure to the production risk of other Suppliers in the Committed Sugar Pools is low, except in rare circumstances.

The production buffer provided by the On-Delivery Component in the QSL Harvest Pool being marketed for shipment outside the production season is designed to withstand a significant crop decline occurring after the Pricing Declaration Date, although it is important to note that this situation would be rare (based on past industry experience).

If the export supply from all Suppliers of QSL-marketed sugar declines by more than the On-Delivery Component after the harvest has started (e.g. following an extreme weather event during the harvest), depending on the circumstances, there may be costs to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools.

Any costs remaining, after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall, would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

9.1.4 Production risk and Supplier EI Pools

Production risk in relation to Supplier EI Sugar is managed by each Supplier.

9.2 PRICE RISK

As previously outlined, marketing raw sugar entails a number of risks. The QSL pooling system cannot and does not provide total mitigation of supply chain risk, and Suppliers and Growers need to be mindful of the total risk environment of the raw sugar industry when participating in QSL pools.

This section provides general information about potential risks associated with the pattern of pricing and sales.

Risk management (cont.)

9.2.1 Risk and return

The core principle of risk and return is that as the potential level of return increases so does the risk. Low levels of uncertainty (low risk) are associated with lower potential returns, whereas high levels of uncertainty (high risk) are usually associated with higher potential returns. A common misconception is that higher risk equals greater return. In fact, the risk/return trade-off only means that higher risk gives the possibility of higher return. There are no guarantees. Just as increased risk means higher potential return, it can also mean higher potential losses or costs.

Like an investment, QSL pools are designed to make a return, but are also subject to risk. This means that there is a chance the pool may not achieve its financial objectives.

In this context, it is important to note that the QSL pools are of a 'pass-through' nature. This means that Suppliers, and ultimately Growers (subject to the terms of the relevant agreement(s) between Growers and the milling company they supply) bear all risks allocated to the pools.

9.2.2 Price risk quantification – QSL Shared Pool element

All pools receive an allocation from the QSL Shared Pool, regardless of how the gross price is determined. More information about the QSL Shared Pool can be found in the Overview of the QSL Shared Pool in Chapter 4 – Pool Descriptions and Overviews of this Guide.

Premiums are usually earned in \$US and are reflected through the QSL Shared Pool.

9.2.3 Premium Risk

Premiums are the value of export sales revenue from an export customer not derived from the futures market. Such amounts include:

- regional and freight premiums; and
- polarisation and quality premiums.

Premiums can be impacted by a range of factors, including world and regional supply and demand dynamics, delivery location and the quality of raw sugar. Some of these factors are beyond the direct control of QSL, but QSL can take actions to influence the level of premium returns.

Premium risk is managed primarily through the marketing program and plan, quality testing regimes and logistics capacity and performance. QSL's actions in these areas can generate improved premium returns through:

- timing the sales program to capture regional and freight premiums;
- managing the sales program and marketing activities to enable access to a diverse range of markets and customers;
- managing storage constraints and logistics requirements effectively to ensure the sales program runs smoothly;
- demonstrating a history of reliable, on-time freight delivery, assuring customers that contractual requirements will be met; and
- managing quality testing processes, blending and the quality incentive scheme, assuring customers that contractual requirements in relation to quality will be met.

9.2.4 Premium Risk – Timing of sales

One element of sales discretion is the timing of when raw sugar is able to be sold to customers.

This is governed by the QSL Marketing Risk Management Policy. This policy limits the amount of raw sugar that can be sold by QSL to customers prior to the Pricing Declaration Date (pre-season) and how much can be sold prior to the actual harvest commencing.

These limits are derived from the expected amount of Committed Sugar and conditions placed on the marketing of the QSL Harvest Pool raw sugar specified in the RSSA.

As discussed in Chapter 2 – Sugar pricing and the Futures Market, where raw sugar is placed into Committed Sugar Pools, Suppliers have a contractual obligation to provide the raw sugar regardless of crop variations (and failure to do so will result in a financial adjustment to that Supplier).

This provides increased certainty and enables QSL to lock in sales to key customers at any time prior to or during the harvest, once the raw sugar is placed into a QSL Committed Sugar Pool. This gives customers a degree of security and may lead to lower variability in premiums.

9.2.4 Premium Risk – Timing of sales (cont.)

QSL has limited discretion in relation to the timing of when raw sugar allocated to the QSL Harvest Pool may be sold to customers. This pool's structure has a component to provide a production buffer and a component to provide for logistical and marketing constraints where a certain amount of sugar needs to be sold for shipment during the season. Sales discretion is only provided for within the following parameters:

- for the component provided for logistical and marketing constraints a limited amount of sales may be made commencing from 1 December 2015 up to the Pricing Declaration Date (29 February 2016). During this period, upon the level of sales reaching 65 per cent of the then-current estimate calculated under the RSSAs for QSL-marketed pools, options must be incorporated within sales that permit supply of Australian or other origin sugar. After the Pricing Declaration Date sales may be required to manage the storage constraints; and
- the component providing for a production buffer (the On-Delivery Component) can only be sold upon actual delivery.

The more flexibility QSL has in this area, the greater ability there is to manage premium risk and returns. Conversely, reduced flexibility results in a reduced ability to manage premium risk and returns.

9.2.5 Price risk quantification – Gross price element (pool price)

The gross price element of the pool price is primarily impacted by the:

- positioning of sales;
- management of the resultant futures exposures; and
- management of the resultant foreign currency exposures.

9.2.6 Physical vs. futures profile of sales

An element of sales discretion is the actual mix of sales QSL makes against each futures position in order to fulfil the futures pricing done in each pool.

Committed Sugar Pools have a fixed pricing profile with set portions to be priced against the July, October, March and May futures positions in the ratio of 1:2:2:1. Notional QSL Harvest Pool sales are therefore influenced by storage capacity and the requirements governing maintenance of a production buffer.

However, from time to time the combination of the futures market prices and physical premiums available in the physical market may mean that it is beneficial for QSL to make sales in a pattern different to that suggested by a passive approach. QSL may do this subject to the conditions set out in QSL's Marketing Risk Management Policy.

For example, if the futures price against the October futures position in the period after the Pricing Declaration Date is trading at 2 US c/lb higher than the March position, QSL may make additional sales in October to capture these values. This can be achieved through either changing the mix of QSL Harvest Pool sugar or moving 1:2:2:1 pricing.

9.2.7 Gross price element – Sugar price risk

The prices paid to Suppliers for raw sugar supplied to QSL pools are a net price per metric tonne IPS of raw sugar, which encompasses both gross price and QSL Shared Pool elements.

Sugar price risk is an inherent feature of the raw sugar market and impacts the gross price element of the net pool price. Raw sugar price risk means exposure to raw sugar price movements on actual and anticipated raw sugar sales for a season that have not been fixed or price protected.

By its very nature, raw sugar price risk cannot be totally eliminated. However, it is manageable to some extent in the short to medium term through the use of mechanisms that provide Suppliers and Growers with a degree of price certainty.

Further information is provided in section 9.4.3 of this Guide.

9.2.8 Gross price element – Foreign currency risk

As the vast majority of raw sugar sales are denominated in \$US, QSL faces a foreign currency risk when converting the proceeds of sales into \$A. For financial risk management purposes, foreign currency risk is defined as exposure to exchange rate movements on all foreign currency flows that have not been hedged.

Further information is provided in section 9.4.3 of this Guide.

Risk management (cont.)

9.3 PASSIVE MANAGEMENT BENCHMARK

To help Suppliers and Growers evaluate the price risk associated with participating in a particular pool, the risk profile of each QSL-marketed pool (except the QSL US Quota Pool and the QSL Shared Pool) is compared against a Passive Management Benchmark compiled by QSL, reflecting a pool with a neutral risk profile. The purpose of the Passive Management Benchmark is to:

- provide a reference point for the amount of risk a Supplier has when making an election to participate in a particular pool; and
- measure QSL's performance for the pools it manages in regard to both the sales mix and the price risk management activities undertaken by the QSL pool manager in terms of the gross price element of returns.

The Passive Management Benchmark is based on a QSL pool manager adopting a passive (low discretion) approach to sales and pricing by following routine sales and pricing patterns while accounting for applicable constraints, such as infrastructure, storage and the agreed Pricing Declaration Date.

For raw sugar exported by QSL under RSSAs, the following constraints govern the operation of the Passive Management Benchmark:

- raw sugar is available for shipment from 1 July in the year harvesting starts and all raw sugar produced in a season will be shipped and sold within the 12-month period to 30 June the following year;
- marketing (sales) and pricing cannot commence until the first working day after the Pricing Declaration Date (except for raw sugar allocated to the Storage Peak Tranche of the QSL Harvest Pool);
- the net amount of storage available at the bulk sugar terminals, after taking into account the storage needs of the domestic market, is approximately 1.6 million tonnes (some of which will be allocated to Suppliers which have elected to market their Supplier EI Sugar); and
- the amount of time to price the available exposure for each futures contract is the same.

Figure 11 provides an example of how the Passive Management Benchmark and QSL pricing program may work.

Figure 11: Example scenario Passive Management Benchmark sales and pricing program

Example scenario:

Assuming Suppliers give QSL an export supply estimate of 3 million tonnes for the 2016 Season, based on the constraints the Passive Management Benchmark would assume the following sales and pricing program:

TOTAL VOLUME TO BE SOLD	SHIPMENT DURING THE HARVEST: 1 Jul 2016 to 31 Dec 2016	SHIPMENT FROM STORAGE AFTER THE HARVEST: 1 Jan 2017 to 30 June 2017
3.0 million mt	1.4 million mt	1.6 million mt

Note that, for simplicity, this example and the examples in Figure 12 and Figure 13 assume that no storage capacity is assigned to Suppliers for Supplier EI Sugar – these figures have been adopted only as a theoretical benchmark.

QSL's exposure on the futures market is governed by when raw sugar is shipped, relative to the underlying futures delivery month. Each ICE 11 futures delivery month represents a 10-week shipment window within which the buyer of the futures contract must present its vessel for loading at the seller's port.

As illustrated in Figure 3 of this Guide, shipments occurring within the harvesting period are priced based on the July and October futures contracts, within the season the raw sugar is produced.

Figure 12 provides an example of how the Passive Management Benchmark and ICE 11 exposure may work.

Figure 12: Example scenario Passive Management Benchmark ICE 11 exposure

Example scenario:

Under a scenario of 3 million tonnes of raw sugar being available to QSL for export, 1.4 million tonnes of raw sugar must be shipped before the harvest finishes. This is due to storage constraints at the bulk sugar terminals, where only 1.6 million tonnes can be stored for shipment outside the harvest period. Under this scenario the Passive Management Benchmark would have the following exposures to the ICE 11:

PASSIVE MANAGEMENT BENCHMARK ICE 11 SALES AND PRICING PATTERN (mt)				
HARVEST PERIOD		SHIPMENTS FROM STORAGE		TOTAL
July	October	March	May	
700,000	700,000	800,000	800,000	3,000,000

Raw sugar pricing by the Passive Management Benchmark is assumed to be undertaken by reference to the ICE 11 market in an even and regular manner over a set period leading up to the expiry of each ICE 11 contract.

Figure 13: Example scenario pricing

Example scenario:

Assuming the delivery estimate does not change at any time during the season, and under the scenario of 3 million tonnes for the 2016 Season, the Passive Management Benchmark is assumed to price its exposure as per the table below:

FUTURES POSITION	PRICING STARTS	PRICING FINISHES	TONNAGE PRICED
July 2016	1/3/2016	30/6/2016	700,000
October 2016	1/4/2016	30/9/2016	700,000
March 2017	1/9/2016	29/2/2017	800,000
May 2017	1/11/2016	30/4/2017	800,000

The \$US value of the pricing done each day by the Passive Management Benchmark is assumed to be converted into \$A immediately, at the prevailing \$A/\$US exchange rate. The overall \$A price which would have been achieved by the Passive Management Benchmark is used to assess the performance of the various QSL pools.

Risk management (cont.)

9.4 POOL RISK ASSESSMENT

For the purposes of this Guide, the risk profile of each QSL-marketed pool (except the QSL US Quota Pool and the QSL Shared Pool) is described using the following parameters and ranked relative to the Passive Management Benchmark:

- My Production risk;
- Collective Production risk;
- Price risk; and
- Logistics constraints.

These parameters express the varying degrees of risk mitigation for the management of production risk, raw sugar price, foreign currency and premium risk under the different QSL pools. Altering any of these risk parameters enables QSL to adjust the degree of risk and, therefore, the potential available returns for a pool.

Each of the risk parameters for a pool is assigned a summary risk weighting expressed on a scale of one to five in comparison to the same risk parameter in the Passive Management Benchmark. This presents a high-level summary but should be read together with the actual description documents provided for each pool.

Table 15: QSL risk scale

RISK SCALE	
Less risk than the Passive Management Benchmark	■ □ □ □ □ ■ ■ □ □ □
Same risk as the Passive Management Benchmark	■ ■ ■ □ □
More risk than the Passive Management Benchmark	■ ■ ■ ■ □ ■ ■ ■ ■ ■

A neutral weighting means a pool has no more or less risk than the Passive Management Benchmark for the same risk parameter. In sections 9.4.1 to 9.4.9 of this Guide, each of the risk parameters is discussed, including how it may affect the amount of risk present in a pool as well as the pool's potential return.

9.4.1 My Production risk

Committed Sugar Pools have a higher risk weighting than the Passive Management Benchmark in this area because of the obligation on a Supplier under the RSSA to deliver Committed Sugar. A failure to deliver Committed Sugar may result in financial compensation being payable to QSL.

The Passive Management Benchmark assumes there is no delivery obligation and therefore no requirement to make good in the event of non-delivery. Like the Passive Management Benchmark, there is no supply obligation associated with the QSL Harvest Pool. Therefore, the QSL Harvest Pool has a risk weighting no lower than the Passive Management Benchmark.

9.4.2 Collective Production risk

This element of the risk profile for a pool indicates whether hedging gains and losses could be incurred in the event of the pooling system becoming overpriced in aggregate.

The Passive Management Benchmark adjusts its pricing during the season based on the latest supply estimates and, where the crop estimate allows, it maintains a buffer against March and May positions, which it does not start to price until November. This means the risk of the benchmark incurring hedging gains and losses is low, except in rare circumstances (e.g. if there is a production buffer failure event).

The RSSA provides that hedging losses or gains are allocated across all pools in the event of a production buffer failure. Given the pooling system also provides for the maintenance of a 'production buffer' to manage the risk associated with delivery shortfalls, all pools have a risk weighting no lower than the Passive Management Benchmark.

9.4.3 Price risk

The majority of QSL's exports are priced via the ICE 11 futures market. Raw sugar contracts are listed on the ICE 11 for a period of 35 months. These are used by QSL as a means of ascertaining the value of raw sugar (price discovery) and as a price risk management mechanism for exposures falling within this period. The raw sugar contracts are denominated in \$US.

The key focus of QSL's raw sugar price risk management activities for all QSL pools (except for the QSL US Quota Pool) relates to the use of futures contracts and options on futures contracts on the ICE 11, and in OTC arrangements (the price of which is also related to, or derived from, ICE 11 values). Foreign currency risk management is used to secure and protect foreign currency revenue flows from unfavourable movements in exchange rates.

The risk weighting for a QSL-marketed pool (in terms of price risk management) is derived from:

- the allowable instruments available to the pool's manager;
- the upper and lower band of operational discretion expressed as variation from a Pool Specific Neutral Profile;
- whether the pool has a reversal strategy (i.e. the possibility of reversing existing trades) within the operational authority limits;
- the length of the pricing window; and
- the potential for changes to the price risk management exposure to be managed.

9.4.4 Allowable instruments

There are a number of instruments available to the QSL pool manager to manage raw sugar price and foreign currency risk, but not all instruments can be used in all pools.

Therefore, part of the risk weighting for price risk protection depends on the instruments available to the QSL pool manager and the degree of certainty attached to the outcome of the use of those instruments.

Some pools allow the use of commodity options, where a minimum price is able to be secured for a cost but where the ability to participate in further price rises after the initial price is secured remains. These types of instruments have less certainty than if only outright pricing using futures contracts or commodity swaps is used, and may represent a higher level of risk.

The Passive Management Benchmark assumes that only outright pricing using ICE 11 futures will be used, as once priced, tonnage is not exposed to any further movements in the ICE 11 futures price.

In regard to foreign currency, the most common instruments include fixing the foreign exchange rate at a forward rate for a pre-determined future date, and using foreign currency option instruments that allow for protection against adverse movements in the foreign exchange rate while also enabling participation in any favourable movements. The full range of permitted instruments and techniques available to the QSL pool manager for each pool is outlined in the Pool Description for each pool.

9.4.5 Operational discretion

The operational framework for QSL-managed pools (e.g. the QSL Committed Sugar Pools and the QSL Harvest Pool) is designed to enable authorised QSL officers to exercise commercial judgement in the management of financial risk within defined limits, while maintaining an appropriate degree of discipline and rigour.

The balance between discipline and the opportunity for authorised QSL officers to add value to the pools is reflected in the level of the operational limits authorised by the QSL Board, compared to the rate of pricing established by a Pool Specific Neutral Profile. This Pool Specific Neutral Profile is based on the sales and pricing program provided for the pool under the RSSA (e.g. a 1:2:2:1 Sales Program for Committed Sugar Pools).

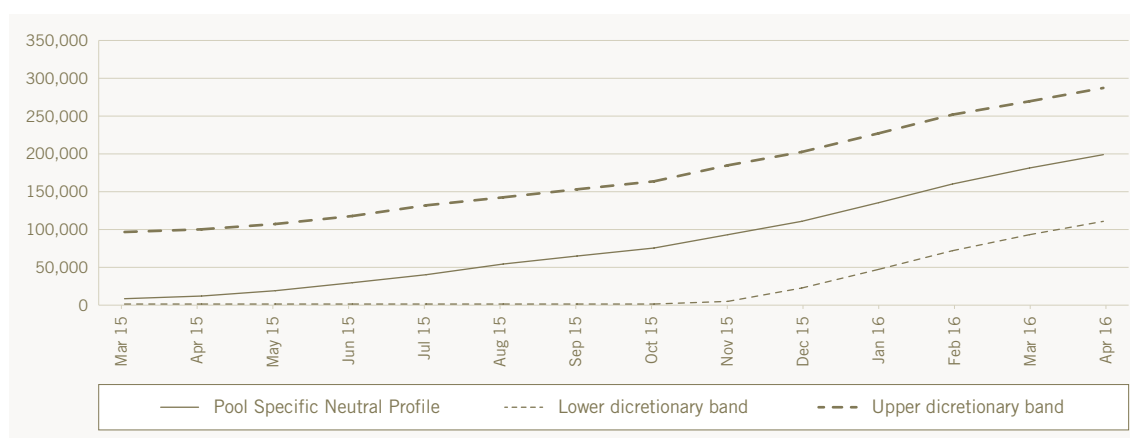
The progressive amount of pricing done under the Pool Specific Neutral Profile is used to set limits for the amount of pricing that must be completed by each QSL pool as the season progresses. The Pool Specific Neutral Profile provides that foreign currency pricing is completed at the same time as raw sugar pricing.

Risk management (cont.)

9.4.5 Operational discretion (cont.)

The upper and lower band of operational authority is expressed as a plus or minus percentage variation from the Pool Specific Neutral Profile. Where operational discretion is allowed, a QSL pool manager may delay pricing relative to the Pool Specific Neutral Profile if they hold the view that prices will be better later, or alternatively they may price ahead of the Pool Specific Neutral Profile should they hold the view that prices will fall later in the season. A typical operational discretion profile is illustrated in Figure 14.

Figure 14: Discretionary pricing profile



It is important to note that discretion is only applicable to those pools where QSL has independent authority to undertake pricing. The Passive Management Benchmark provides that pricing is undertaken in line with the passive sales and pricing program described in section 9.3 of this Guide, and assumes no authority for operational discretion.

9.4.6 Reversal strategy

For most pools, the pool manager also has the authority to unwind or reverse pricing within the discretionary bands. This increased authority may give rise to pricing losses or gains, which may affect the final price. The Passive Management Benchmark assumes no authority to unwind or reverse pricing.

9.4.7 Length of the pricing window

This element of a pool's risk profile refers to the time available for the QSL pool manager to price the raw sugar allocated to the pool. For most QSL pools, the timeframe for pricing activities runs from the Pricing Declaration Date to 30 April the following year (when the May futures contract expires), the same as the Passive Management Benchmark.

Where the timeframe available for pricing activities is longer or shorter than the Passive Management Benchmark, the pool receives a higher risk weighting than the benchmark.

9.4.8 Changes to the price risk management exposure

This element of the risk profile reflects how a pool's returns may be affected by the overall volume of raw sugar supplied by all pool participants in a season.

The Passive Management Benchmark prices raw sugar progressively over time, with continual adjustments made to reflect changes in Suppliers' delivery estimates. A shortfall in one or more Suppliers' actual deliveries against their estimate reduces or increases the final Passive Management Benchmark price, as such an event reduces the amount of raw sugar that will be priced by the benchmark.

Similarly, the return for the QSL Harvest Pool remains volatile until the final quantity of raw sugar delivered to QSL for the season is known and the QSL pool manager completes the risk management activities for the pool.

For Committed Sugar Pools, individual Suppliers are required to financially compensate QSL should their final deliveries fall short of forecast tonnage. This obligation for compensation reduces risk for other Suppliers in these pools, and therefore these pools will receive a lower risk weighting versus the Passive Management Benchmark.

9.4.9 Logistics constraints

This element of a pool's risk profile reflects whether a pool has greater or fewer logistics constraints that may affect the amount of pricing against each futures position and therefore the amount of time available to manage the risk. Logistics constraints include storage capacity, availability of facilities and equipment for receiving and ship loading and shipping capacity.

The Passive Management Benchmark assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the passive management sales program.

9.5 PERFORMANCE MEASUREMENT

QSL's key objective is to manage risks effectively to maximise overall pool returns to Suppliers. In assessing and measuring performance of each QSL-marketed pool (except the QSL US Quota Pool and the QSL Shared Pool), this overall return is compared to that of the Passive Management Benchmark.

Measures in QSL's risk management policies also enable QSL to isolate its sales, raw sugar pricing and foreign exchange performance for each pool. This additional level of analysis enables QSL to review its strategies and policies and to implement improvements where this is considered appropriate.

CHAPTER 4

QSL Pool Descriptions and Overviews

This chapter provides, in relation to QSL-marketed sugar, a description for each pool, detailing the pool's objectives, risks and Supplier obligations.

RISK PROFILE

For the purposes of this Guide, the risk profile of each QSL-marketed pool (except the QSL US Quota Pool and the QSL Shared Pool) is ranked relative to the Passive Management Benchmark in relation to a range of parameters.

These parameters express the varying degrees of risk mitigation for the management of raw sugar price, foreign currency and premium risk under the different QSL pools. Altering any of these risk parameters enables QSL to adjust the degree of risk, and therefore the potential available returns, for a pool. Each of the risk parameters for a pool is assigned a summary risk weighting expressed on a scale of one to five in comparison to the same risk parameter in the Passive Management Benchmark.

Table 15: QSL risk scale

RISK SCALE	
Less risk than the Passive Management Benchmark	■ □ □ □ □ ■ ■ □ □ □
Same risk as the Passive Management Benchmark	■ ■ ■ □ □
More risk than the Passive Management Benchmark	■ ■ ■ ■ □ ■ ■ ■ ■ ■

Table 16 summarises the summary risk weighting for each parameter for each QSL-marketed pool. A neutral weighting means a pool has no more or less risk than the Passive Management Benchmark for the same risk parameter. Further information in relation to the Passive Management Benchmark and the risk parameters is provided in Chapter 3 – Risk Management of this Guide.

Table 16: Summary risk weighting by pool

	QSL HARVEST POOL	QSL ACTIVELY MANAGED POOL	QSL GUARANTEED FLOOR POOL	QSL 2017 2-SEASON FORWARD POOL ²
My Production Risk	■ ■ ■ □ □	■ ■ ■ ■ ■	■ ■ ■ ■ ■	■ ■ ■ ■ ■
Collective Production Risk	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □
Price Risk	■ ■ ■ ■ ■	■ ■ ■ ■ □	■ ■ □ □ □	■ ■ ■ ■ □
Logistics Constraints	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □
	FIXED PRICE FORWARD CONTRACT	IN-SEASON FIXED PRICE CONTRACT	TARGET PRICE CONTRACT	SUPPLIER PRICING SCHEME
My Production Risk	■ ■ ■ ■ ■	■ ■ ■ ■ ■	■ ■ ■ ■ ■	■ ■ ■ ■ ■
Collective Production Risk	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □
Price Risk	Dependent on Supplier actions	Dependent on Supplier actions	Dependent on Supplier actions	Dependent on Supplier actions
Logistics Constraints	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □	■ ■ ■ □ □

² This pool is only available to those Suppliers contracted to QSL for the 2017 Season.

POOL 1	QSL US QUOTA POOL	36
<hr/>		
<p>A QSL-priced Committed Sugar Pool that encompasses the returns for sales made by QSL into the United States under the Tariff Rate Quota issued for import of raw sugar. All Suppliers have tonnage in this pool however US quota sales will only be made if they yield higher returns than alternative markets.</p>		
POOL 2	QSL HARVEST POOL	40
<hr/>		
<p>An Uncommitted Sugar Pool priced by QSL that is designed to manage possible production fluctuations across a season.</p>		
POOL 3	QSL ACTIVELY MANAGED POOL	46
<hr/>		
<p>A QSL-priced Committed Sugar Pool that targets the best return over the season by pricing more frequently as short-term market opportunities arise.</p>		
POOL 4	QSL GUARANTEED FLOOR POOL	52
<hr/>		
<p>A QSL-priced Committed Sugar Pool that provides a guaranteed minimum return with the potential for higher returns and offers an accelerated Advance Payment rate of 90 per cent as at 31.12.16.</p>		
POOL 5	QSL 2016 2-SEASON FORWARD POOL	58
<hr/>		
<p>QSL-priced Committed Sugar Pool priced over two seasons that targets the best return for raw sugar to be produced in the 2016 Season. Nominations for this pool closed in February 2015.</p>		
POOL 6	QSL 2017 2-SEASON FORWARD POOL	64
<hr/>		
<p>A QSL-priced Committed Sugar Pool over two seasons that targets the best return for raw sugar to be produced in the 2017 Season. This pool is only available to those Suppliers contracted to QSL for the 2017 Season.</p>		
POOL 7	FIXED PRICE FORWARD CONTRACT	70
<hr/>		
<p>Allows a Supplier to price a nominated tonnage in whole price units of 304.815 metric tonnes of raw sugar at target prices set by the Supplier in future season(s). A tool that may be used by Suppliers to offer forward pricing to Growers.</p>		
POOL 8	IN-SEASON FIXED PRICE CONTRACT	76
<hr/>		
<p>Allows a Supplier to price a nominated tonnage in whole price units of 304.815 metric tonnes of raw sugar at target prices within the season. A tool that may be used by Suppliers to offer pricing to Growers.</p>		
POOL 9	TARGET PRICE CONTRACT	80
<hr/>		
<p>Allows a Supplier to price in a minimum of 50.8025 tonne orders of raw sugar at target prices for the current seasons and up to three seasons forward. A tool that may be used by Suppliers to offer pricing to Growers.</p>		
POOL 10	SUPPLIER PRICING SCHEME	84
<hr/>		
<p>In-season Supplier-managed pricing of raw sugar. A tool that may be used by Suppliers to offer local pooling alternatives to Growers.</p>		
POOL 11	SHARED POOL	88
<hr/>		
<p>The QSL Shared Pool is not a pool to which raw sugar is allocated. Rather, it is a pool that captures marketing and logistics system revenues and costs which are then shared across all QSL-marketed pools (both QSL-managed and Supplier-managed pools) and Supplier EI Pools.</p>		

CHAPTER 4

Pool 1 – QSL US Quota Pool

This pool is a Committed Sugar Pool.

A Supplier's tonnage allocation to this pool is determined by the amount of Certificates of Quota Eligibility (CQEs) they hold, and the amount of Tariff Rate Quota (TRQ) imports allocated by the US Government to the Australian Government. The amount allocated to the QSL US Quota Pool by the Supplier is net of any US quota it has elected to market itself. The Supplier can only market a portion of US quota that is equivalent to its Supplier Economic Interest proportion of raw sugar.

A Supplier must supply this raw sugar regardless of crop variations.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

In this pool, all Suppliers share in the returns from export sales of raw sugar to the US through its quota system where prices are usually anticipated to be higher than other markets.

QSL US Quota Pool

10.0 POOL MANAGEMENT OBJECTIVES

QSL aims to secure the best possible returns for this pool from the US quota system, within the constraints of customer requirements and market liquidity on the ICE 16 futures market (which is dedicated to the US domestic raw sugar market and is very thinly traded).

QSL continually assesses where the best return can be gained and whether higher value can be obtained by selling the raw sugar to an alternative destination rather than the United States. If this occurs, then the raw sugar will be allocated to the QSL Harvest Pool rather than against the QSL US Quota Pool.

10.1 MANAGEMENT STRATEGY AND MECHANISMS USED

The gross \$US price is determined through a combination of selling ICE 16 futures contracts and direct negotiation with customers.

The QSL Shared Pool element will be added to the gross price achieved by QSL to arrive at the final net price received from this pool. Suppliers and Growers should read the Overview for the QSL Shared Pool to ensure they understand the other revenues and costs that may be allocated to the QSL US Quota Pool from the QSL Shared Pool.

10.2 KEY CHARACTERISTICS OF THE POOL

10.2.1 Minimum and maximum tonnage

A Supplier's tonnage allocation to this pool is determined by the amount of CQEs it holds, the amount of TRQ imports allocated by the US Government to the Australian Government and the election made in relation to whether the Supplier wishes to market some of its US quota via the Supplier EI Pool. CQEs are granted by the US Government to foreign governments and entitle a foreign exporter of raw sugar to a fixed tonnage for export to the US. The Australian Government allocates the CQEs each year to all Australian milling companies.

As noted above, Suppliers with CQEs can elect to have part of the raw sugar for which they receive CQEs marketed through their Supplier EI Pool. Suppliers are required to assign their CQEs for all remaining volumes to QSL and a Supplier's remaining tonnage is allocated to the QSL US Quota Pool before other Committed Sugar Pools.

QSL makes an initial allocation based on the Supplier's allocation of CQEs from the previous year. Once the current year's CQE allocation is announced, the Supplier's tonnage is adjusted if necessary. Any change to the tonnage a Supplier provides to the QSL US Quota Pool after the initial allocation is added to or subtracted from the Supplier's allocation to the Harvest Pool.

10.2.2 Pricing Declaration Date and participation requirements

There is no specific Pricing Declaration Date.

10.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

10.2.4 Pricing and foreign exchange management responsibilities

QSL is responsible for managing the ICE 16 raw sugar price risk in \$US and the associated foreign exchange management to deliver an \$A gross price.

QSL US Quota Pool (cont.)

10.2.5 Supply obligations

Tonnage committed by Suppliers to this pool is a fixed obligation and a binding agreement as soon as the Australian Government allocation of CQEs for a quota year is announced (taking into account the Supplier's previous election in respect to the marketing of its allocation). Suppliers must deliver the committed volume of raw sugar in the current season regardless of crop variations. As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or revenues) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

10.2.6 Schedule for payments to Suppliers

Suppliers receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

How Advance Payments from this pool are passed on to Growers is determined by the terms of the relevant agreement(s) between Growers and the milling company they supply.

10.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in Section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

Following the Pricing Declaration Date, if combined deliveries from all Suppliers decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs incurred to correct the export sales program. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

10.2.8 US Quota returns and the QSL Shared Pool

The ICE 16 futures price represents the price of 'Free-In-Store' (FIS), where the price is inclusive of all costs involved in delivering into the customer warehouse within the United States. This means the ICE 16 futures price includes the amount of freight the customer will pay.

The result of this is that the premium (in excess of the ICE 16 futures price) earned on US Quota sales tends to be less than ICE 11 sales and the direct marketing costs tend to exceed the premium earned. This will see the QSL Shared Pool allocation for the QSL US Quota Pool be significantly different to the other QSL pools and is likely to be a sizable deduction from the gross price achieved.



This page has been intentionally left blank.

CHAPTER 4

Pool 2 – QSL Harvest Pool

The QSL Harvest Pool is an Uncommitted Sugar Pool as there is no obligation to deliver raw sugar allocated to this pool unless it is produced. This pool is designed to manage possible fluctuations in production across a season in the season and is also the default pool for some Suppliers. Any raw sugar not allocated to Committed Sugar Pools (or a Supplier EI Pool) is allocated to the QSL Harvest Pool.

As the QSL Harvest Pool is designed to manage possible fluctuations in production, all Suppliers must have at least 35 per cent of their estimated RSSA deliveries intended for QSL-marketed pools nominated to this pool at the Pricing Declaration Date.

If a Supplier's total delivery estimate for a season varies after the Pricing Declaration Date, the change in respect of the QSL-marketed pools is added to or subtracted from the tonnage in the QSL Harvest Pool. The lack of a contractual commitment prior to delivery of the raw sugar to QSL means that only a limited amount of marketing and pricing may be undertaken for raw sugar in this pool prior to the harvest commencing. This reflects the uncertainty about the final quantity of raw sugar that will be delivered to this pool and the production risk present in this pool.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

QSL Harvest Pool

11.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool which means the gross price element is derived directly from the ICE 11 futures market which is converted from United States dollars to an Australian dollar return. QSL is responsible for the pricing decisions which set the gross price element of this pool. For the avoidance of any confusion, it should be noted that the Harvest Pool under the RSSA technically combines what is referred to in this Marketing Guide as the QSL Harvest Pool and the Supplier-managed Harvest Pool. The Supplier-managed Harvest Pool exists where a Supplier elects to be the pricing risk manager for Supplier Risk Managed Harvest Pool Sugar, being raw sugar allocated to the Harvest Pool by a Supplier which is Supplier EI Sugar and/or Grower EI sugar which the growers have appointed the relevant Supplier to be the risk manager for. A Supplier can only have Supplier Risk Managed Harvest Pool sugar where it is not marketing its Supplier EI sugar for the relevant season. This section solely describes the QSL Harvest Pool part of the Harvest Pool.

The net price for the QSL Harvest Pool will be the gross price achieved by QSL plus an allocation from the QSL Shared Pool. All Suppliers receive the same net price per metric tonne IPS for tonnage supplied to this pool (subject to Supplier-specific adjustments made in accordance with the RSSA). The overall objective of the pool is to achieve a price outcome reflective of returns available in the market during the season, whilst accounting for production risk and logistical constraints.

Due to logistical and marketing constraints, a proportion of the raw sugar in the QSL Harvest Pool may be marketed and shipped within the harvesting season.

However, a proportion of raw sugar in the QSL Harvest Pool is also designed to act as a buffer against possible fluctuations in production (Production Buffer Tranche – On Delivery Component), and is only marketed once the raw sugar has been physically delivered to QSL. The quantity of the On-Delivery Component is determined depending on whether:

- a) the aggregate of all Suppliers' Committed Sugar for the Season is less than 65 per cent of the aggregate of all Suppliers' initial estimated export tonnage of QSL-marketed sugar; or
- b) the aggregate of all Suppliers' Committed Sugar for the Season is equal to 65 per cent of the aggregate of all Suppliers' initial estimated export tonnage of QSL-marketed sugar.

The QSL Harvest Pool On-Delivery Component under the first scenario is 25 per cent of the QSL-marketed sugar, unless storage constraints do not enable this level of storage, in which case the On-Delivery Component is equal to the maximum available storage in the bulk sugar terminals given planned out-of-season sales and storage capacity allocated to Suppliers marketing their Supplier EI Sugar.

The QSL Harvest Pool On-Delivery Component under the second scenario is the maximum available storage in the bulk sugar terminals given planned out-of-season sales and storage capacity allocated to Suppliers marketing their Supplier EI Sugar.

The structure of the QSL Harvest Pool can be summarised as follows:

- **Storage Peak Tranche** – This component incorporates QSL Harvest Pool raw sugar which must be sold for shipment within season in order to allow for storage constraints. This component can only be sold and priced from 1 December prior to the Pricing Declaration Date.
- **Production Buffer Tranche (On-Delivery Component)** – This component must only be sold on physical delivery of raw sugar to QSL. Pricing may occur before physical delivery but only with the use of put options (an option contract giving QSL the right, but not the obligation, to sell a specified amount of raw sugar at a specified price within a specified time), which are not exercised until physical delivery has occurred. The quantity of raw sugar allocated to this component is described earlier in this section.
- **Production Buffer Tranche (Discretionary Component)** – This component can only exist under the first scenario described (i.e. Committed Sugar of less than 65 per cent of the aggregate of QSL-marketed sugar) and is the remaining raw sugar (if any) in the QSL Harvest Pool following allocation to the Storage Peak Tranche and the Production Buffer Tranche (On-Delivery Component). This component must only be sold and priced following the Pricing Declaration Date (subject to a limited exception which may permit some sales from the prior 1 December 2015, provided omnibus options permitting supply by non-Queensland origin sugar as an alternative are used for sales above 65 per cent of the then-current estimate calculated under the RSSAs for QSL-marketed pools).

QSL Harvest Pool (cont.)

Table 16 provides an example of the tonnage of raw sugar allocated to each component under different scenarios. The example is based on the following assumptions:

- 1) The pricing and sale of Committed Sugar is undertaken on a 1:2:2:1 futures split (i.e. 50 per cent in-season and 50 per cent out-of-season).
- 2) Available storage for RSSA raw sugar is 1.6 million tonnes. Note that, for simplicity, this example assumes that no storage capacity is assigned to Suppliers for Supplier EI Sugar – this figure has been adopted only as a theoretical benchmark.

Table 16: Example of raw sugar allocations

		EXAMPLE 1 (000s tonnes)	EXAMPLE 2 (000s tonnes)	EXAMPLE 3 (000s tonnes)
A	QSL export estimate	2,700	3,000	2,700
B	'Committed Sugar' pools	1,755 (65%)	1,950 (65%)	1,080 (40%)
C	Harvest Pool Sugar	945 (35%)	1,050 (35%)	1,620 (60%)
D	QSL's export storage limit	1,600	1,600	1,600
E	Required in-season sales = A – D	1,100	1,400	1,100
In-Season sales necessary to manage storage:				
F	'Committed Sugar' in-season sales = B x 50% (50% of 1:2:2:1 profile)	878	975	540
G	'Uncommitted Sugar' in-season sales = E – F	222	425	560
		1,100	1,400	1,100
G	Harvest Pool Storage Peak sales = E – F	222	425	560
H	Harvest Pool Production Buffer = C – G	723	625	1,060 ← 39% of exports
		945	1,050	1,620
M	On Delivery component Storage permitting = A *25%	723	625	675 ← 25% buffer
Q	Discretion where Committed Sugar < 65% (only available where B < 65% of exports)	0	0	385
		723	625	1,060

QSL seeks to achieve the best price outcomes within these parameters. Performance will be measured against the Passive Management Benchmark and QSL aims to achieve price outcomes for the raw sugar in this pool in a more active manner than would be expected under a passive management approach.

11.1 MANAGEMENT STRATEGY AND MECHANISMS USED

The objective of this pool is to achieve a price outcome reflective of returns available in the market during the season, whilst accounting for production risk and logistical constraints. The management of production risk within this pool is to mitigate the financial risks borne by Suppliers due to potential reductions in production levels from those initially estimated by each Supplier at the Pricing Declaration Date. The management strategy reflects this objective.

QSL aims to optimise the price achieved for this pool via exercising discretion about when to sell and price raw sugar in this pool (within the applicable limits for the various tranches and components as discussed in section 11.0). Discretion as to when raw sugar must be priced will be governed by a Pool Specific Neutral Profile which assumes sales and pricing will occur in an even and regular manner in accordance with the QSL Harvest Pool restrictions regardless of prices available in the market. QSL will have discretion to lag or lead the Pool Specific Neutral Profile in order to secure the best possible prices from the market for raw sugar in this pool.

11.1.1 Discretionary pricing limits

The operation of the QSL Harvest Pool provides for discretion around the Pool Specific Neutral Profile. Pricing for each component of this pool is also subject to the restrictions outlined in Chapter 2 – Sugar Pricing and the Futures Market of this Guide. The actual percentage of pricing and foreign exchange cover undertaken by QSL may be up to +20/- 20 per cent the level of cover indicated by the Pool Specific Neutral Profile, subject also to the restrictions applying to pricing of this pool.

11.1.2 Pool Performance

Pool performance is reviewed on a daily basis and strategy refined accordingly. A maximum allowable loss (stop-loss) limit assessed against the Pool Specific Neutral Profile is also set out in QSL's Financial Risk Management Policy, and determines the point of under-performance at which QSL's discretion is suspended and corrective action must be undertaken.

11.1.3 Tools used

QSL will use a combination of outright pricing and options through use of ICE 11 futures contracts and OTC instruments via banks. Once pricing is secured it is able to be reversed as some trading in and out of positions is allowed.

Put options may be used at any time after 1 December 2015 and prior to the Pricing Declaration Date (29 February 2016) as a pricing risk management activity for the QSL Harvest Pool, provided that when being used for pricing risk management of the On-Delivery component of the Production Buffer Tranche, such options are not exercised until QSL takes physical delivery of corresponding quantity of raw sugar forming part of the On-Delivery Component.

11.2 KEY CHARACTERISTICS OF THE POOL

11.2.1 Minimum and maximum tonnage

A minimum of 35 per cent of a Supplier's total estimate intended for QSL-marketed pools at the Pricing Declaration Date must be allocated to this pool. There is no maximum tonnage limit.

11.2.1 Pricing Declaration Date and Participation requirements

Suppliers must specify the quantity to be supplied to this pool by the Pricing Declaration Date for the season (subject to any raw sugar not allocated to Committed Sugar Pools or a Supplier EI Pool being automatically allocated to this pool). This quantity may change during the season depending on deliveries from all Suppliers. For the 2016 Season, the Pricing Declaration Date is 29 February 2016. Growers may be required by their milling company to make their nominations earlier than this date for administrative reasons.

11.2.2 Marketing responsibilities

QSL markets the raw sugar in this pool.

11.2.3 Pricing and foreign exchange management responsibilities

QSL is responsible for managing the ICE 11 raw sugar price risk in \$US and the associated foreign exchange management to deliver an \$A gross price.

11.2.4 Supply Obligations

As an Uncommitted Sugar Pool, there is no obligation to deliver raw sugar allocated at the Pricing Declaration Date to this pool unless it is actually produced. The quantity of raw sugar sold to QSL by a Supplier for a season that exceeds the Supplier's nominations to Committed Sugar Pools for that season will be allocated to the QSL Harvest Pool.

QSL Harvest Pool (cont.)

11.2.5 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

11.2.6 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

11.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is based on the principle that pricing is undertaken in a routine manner by following an evenly spread sales pattern, adjusted for applicable constraints such as infrastructure, storage and the time available to price.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

11.3.1 My Production Risk

The QSL Harvest Pool has no commitment to supply a particular tonnage.

As a result there is no financial compensation payable to QSL in the event a Supplier fails to supply Harvest Pool Sugar (subject to a potential allocation to all Suppliers from the QSL Shared Pool in the circumstances referred to in section 20.0 of this Guide).

The Passive Management Benchmark also assumes there is no delivery obligation and therefore no requirement to make good in the event of non-delivery. Therefore, the QSL Harvest Pool has a risk weighting no lower than the Passive Management Benchmark.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:



11.3.2 Collective Production Risk

The restrictions limiting the sale and pricing of QSL Harvest Pool sugar should mitigate the potential for, and level of, hedging losses incurred as a result of needing to unwind pricing. In the event that overall forecast deliveries to QSL-marketed pools decline by more than the On-Delivery Component after the Pricing Declaration Date, this pool may underperform as there may be costs (or gains) incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in the other components of this pool and in all remaining QSL-marketed pools.

Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:



11.3.3 Price Risk

The QSL Harvest Pool is considered to have a higher risk weighting than the Passive Management Benchmark. This is due to a range of factors including:

- a relatively standard suite of allowable instruments to manage pricing available to the pool's manager although with discretion to undertake reversal of pricing within discretionary limits as some trading in and out of positions is allowed;
- a moderate amount of discretion granted to the pool manager to lag or lead the level of raw sugar and foreign exchange pricing indicated by the Pool Specific Neutral Profile. Therefore, the gross price is volatile up until the final raw sugar and foreign exchange pricing is completed for a season;
- pricing windows limited by the parameters of the pool, in particular restricting the commencement of pricing of the Production Buffer On-Delivery Component until the raw sugar has been physically delivered (other than by put options that cannot be exercised until delivery has occurred); and
- the potential for on-going changes to the price risk management exposure to be managed as a result of the QSL Harvest Pool being used to manage increases and reductions in overall supply.

While the gross price is locked in when pricing is done, Suppliers can expect the net price for tonnage in this pool to remain volatile with movements in the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:



11.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:



11.4 PAST PERFORMANCE

SEASON	GROSS PRICE ACHIEVED IN \$A/TONNE IPS	
	ACTUAL PRICE	PASSIVE MANAGEMENT BENCHMARK PERFORMANCE
2012	\$431	\$424
2013	\$391	\$383
2014	\$406	\$394
2015*	\$383	\$389

* Passive Management Benchmark and actual figures representing projected final results as at 26 February 2016 based on marked-to-market forward raw sugar prices and spot foreign exchange rates. Updated results will be published on QSL's website (www.qsl.com.au) regularly until the final pool results have been determined. Final results may be more or less than these.

Past performance is provided for reference only and may not be indicative of future performance.

CHAPTER 4

Pool 3 – QSL Actively Managed Pool

This pool is a Committed Sugar Pool.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

QSL Actively Managed Pool

12.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. QSL is responsible for the pricing decisions which set the gross price element of this pool.

QSL may price the raw sugar in this pool in a more active manner than would be expected under a passive management approach. QSL will seek to exploit opportunities to produce a price outcome greater than the average returns produced by the Passive Management Benchmark and the Pool Specific Neutral Profile.

12.1 MANAGEMENT STRATEGY AND MECHANISMS USED

Through the QSL Actively Managed Pool, QSL will aim to achieve higher prices by making pricing decisions to align with more favourable market conditions (i.e. the pool manager may delay pricing if they hold the view that a delay may achieve a better outcome and vice versa).

The aim of this pool is to exceed the average return that could have been achieved by pricing evenly across the season, which is commonly referred to as the pool's neutral profile.

12.1.1 Discretionary pricing limits

The amount of discretion that can be used in making pricing decisions for this pool is set by the QSL Board, and identifies the minimum and maximum amount of pricing and the value of foreign exchange transactions that must occur over a period of time. The actual percentage of pricing and foreign exchange transactions must be within +30/-30 per cent of the level indicated by the Pool Specific Neutral Profile for both the raw sugar price and foreign exchange.

There is also discretion as to what types of derivative instruments can be used, such as futures contracts and commodity swaps.

12.1.2 Pool performance

Pool performance is reviewed on a daily basis and the strategy refined accordingly. A maximum allowable loss (stop-loss) limit, assessed against the Pool Specific Neutral Profile, is also set out in the QSL Financial Risk Management Policy, and determines the point of underperformance at which QSL's discretion is suspended and corrective action must be undertaken.

12.1.3 Tools used

QSL will use a combination of outright pricing and options through the use of ICE 11 futures contracts and OTC instruments via banks. Once pricing is secured it is able to be reversed, as some trading in and out of positions is allowed.

12.2 KEY CHARACTERISTICS OF THE POOL

12.2.1 Minimum and maximum tonnage

Suppliers must nominate tonnages to QSL in increments of 304.815 tonnes (which is the equivalent of 6 ICE 11 futures contracts or "lots").

The minimum tonnage Growers must provide to their mill to participate in this pool will be determined by their milling company, and may differ from mill to mill depending on the terms of the relevant agreement(s) between Growers and the milling company which they supply.

There is no maximum tonnage for this pool, but tonnage allocated to Committed Sugar Pools cannot exceed 65 per cent of the Supplier's total supply estimate at the Pricing Declaration Date.

This pool may be cancelled at QSL's discretion if the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes at the Pricing Declaration Date. If this pool is cancelled, Suppliers will be given the choice of placing the nominated tonnage into another Committed Sugar Pool or the QSL Harvest Pool. If the Supplier fails to make such an allocation, then the tonnage is allocated to the QSL Harvest Pool.

QSL Actively Managed Pool (cont.)

12.2.2 Pricing Declaration Date and participation requirements

Suppliers must specify the quantity to be supplied to this pool by the Pricing Declaration Date for the season. For the 2016 Season, the Pricing Declaration Date is 29 February 2016. Growers may be required by their milling company to make their nominations earlier than this date for administrative reasons.

12.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

12.2.4 Pricing and foreign exchange management responsibilities

QSL is responsible for managing the ICE 11 raw sugar price risk in \$US and the associated foreign exchange management to deliver an \$A gross price.

12.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

12.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

12.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers

Costs associated with the failure to meet supply obligations as indicated in section 12.2.5 are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

12.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

12.3.1 My Production Risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■■

12.3.2 Collective Production Risk

In the event that overall forecast deliveries to QSL-marketed pools decline by more than the QSL Harvest Pool On-Delivery Component after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

12.3.3 Price Risk

The QSL Actively Managed Pool is considered to have a risk weighting higher than the Passive Management Benchmark. This is due to a range of factors including:

- a relatively standard suite of allowable instruments to manage pricing available to the pool's manager, although with discretion to undertake reversal of pricing within discretionary limits as some speculative trading in and out of positions is allowed;
- a significant amount of discretion granted to the pool manager to lag or lead the level of raw sugar and foreign exchange pricing indicated by the Pool Specific Neutral Profile. Therefore, the gross price is volatile up until the final raw sugar and foreign exchange pricing is completed for a season;
- a pricing window allowing pricing to commence from the Pricing Declaration Date; and
- a stable price risk management exposure to be managed as a result of the obligation to supply.

Whilst the gross price is locked in when raw sugar and foreign currency pricing is done, Suppliers can expect the net price for tonnage in this pool to remain volatile until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■□

12.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

QSL Actively Managed Pool (cont.)

12.4 PAST PERFORMANCE

SEASON	GROSS PRICE ACHIEVED IN \$/TONNE IPS	
	ACTUAL PRICE	PASSIVE MANAGEMENT BENCHMARK PERFORMANCE
2008	\$334	\$344
2009	\$520	\$529
2010**	–	–
2011	\$693	\$503
2012	\$454	\$417
2013	\$410	\$383
2014	\$443	\$394
2015*	\$415	\$389

*Passive Management Benchmark and actual figures representing projected final results as at 26 February 2016 based on marked-to-market forward raw sugar prices and spot foreign exchange rates. Updated results will be published on QSL's website (www.qsl.com.au) regularly until the final pool results have been determined. Final results may be more or less than these.

**This pool was not offered for the 2010 Season.

Past performance is provided for reference only and may not be indicative of future performance.



This page has been intentionally left blank.

CHAPTER 4

Pool 4 – QSL Guaranteed Floor Pool

This pool is a Committed Sugar Pool.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

QSL Guaranteed Floor Pool

13.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. This pool seeks to provide a known minimum gross price at the commencement date for the pool (the Pricing Declaration Date), whilst enabling limited participation in price rises over the duration of the season, should the market trade above a certain level.

The QSL Guaranteed Floor Pool will guarantee a minimum gross price return for the 2016 Season, and a participation in daily market outcomes above this level. The pool will provide opportunities for Suppliers to capture returns above the guaranteed floor price based on market pricing achievable on and after the first business day in March 2016. The potential floor price will be published on QSL's website prior to the Pricing Declaration Date.

In addition to the floor price, this pool also have an accelerated Advance Payment program guaranteed to reach 90 per cent by the end of December 2016.

This pool does not provide any mechanism for Suppliers to manage the QSL Shared Pool element of the net price. As such, Suppliers to this pool remain exposed to potentially adverse allocations from the QSL Shared Pool.

13.1 MANAGEMENT STRATEGY AND MECHANISMS USED

Through the QSL Guaranteed Floor Pool, QSL will undertake pricing activities to guarantee the target gross floor price while still permitting for better returns should the market trade higher.

The use of pricing mechanisms prevents pool returns falling below the guaranteed price.

QSL will seek to ensure that the anticipated floor pool price is notified to Growers as their relevant mill nomination date approaches. However, should market conditions deteriorate significantly between this date and the Pricing Declaration Date (29 February 2016), when the minimum pool price is set, then both Growers and Suppliers may (subject to the terms of the relevant agreement(s) between Growers and the milling company which they supply) allocate tonnage to other Committed Sugar Pools. If the Grower or Supplier fails to make such an allocation then tonnage is allocated to the QSL Harvest Pool.

QSL Guaranteed Floor Pool prices are on a gross \$A price per tonne actual basis for the ICE 11 component of returns only.

The minimum return will be based on:

- Guaranteed floor price at the Pricing Declaration Date, and participation in positive daily settlements above the pool strike price, as published on www.qsl.com.au.
- Should market conditions strengthen considerably as the Pricing Declaration Date approaches, the guaranteed floor price may be revised accordingly.
- The daily floor and settlement price will reference weighted average raw sugar and currency prices on a daily basis in the respective pricing period.
- Returns above the guaranteed floor price will reflect the pricing achieved on the first business day in March 2016 and daily settlements during the pricing period.
- For the 2016 Season, initial pricing will occur on the first business day in March 2016 and the pricing period for participation in positive daily settlements will run from the first business day in March 2016 until 30 April 2017.
- If QSL is unable to achieve the desired guaranteed floor price due to market levels and liquidity on the first business day in March 2016, the Supplier may allocate that tonnage to other Committed Sugar Pools. If the Supplier fails to make such an allocation then tonnage is allocated to the QSL Harvest Pool.
- Participation in outcomes above the guaranteed pool strike price will be shared amongst the pool participants on a pro-rata basis.
- If QSL is unable to price the total Supplier tonnage committed to the QSL Guaranteed Floor Pool, tonnage will be allocated on a pro-rata basis with reference to the total supply estimate as at Pricing Declaration Date for the 2016 Season.

QSL Guaranteed Floor Pool (cont.)

13.1.1 Discretionary pricing limits

No QSL discretion is applicable to this pool.

13.1.2 Pool performance

The sole performance objective of the QSL Guaranteed Floor Pool is the achievement of the guaranteed floor price.

13.1.3 Tools used

QSL will use a combination of outright pricing and options through the use of ICE 11 contracts and OTC instruments via banks. Once pricing is secured it will not be able to be reversed (no trading in and out of positions is allowed).

Conditions associated with the use and approval of such instruments are detailed in the QSL Financial Risk Management Policy.

13.2 KEY CHARACTERISTICS OF THE POOL

13.2.1 Minimum and maximum tonnage

Suppliers must nominate tonnages to QSL in increments of 304.815 tonnes (which is the equivalent of 6 ICE 11 futures contracts or “lots”).

The minimum tonnage Growers must provide to their mill to participate in this pool will be determined by their milling company, and may differ from mill to mill depending on the terms of the relevant agreement(s) between Growers and the milling company which they supply.

There is no maximum tonnage for this pool, but tonnage allocated to Committed Sugar Pools cannot exceed 65 per cent of the Supplier's total supply estimate at the Pricing Declaration Date.

This pool may be cancelled at QSL's discretion if the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes at the Pricing Declaration Date. If this pool is cancelled, Suppliers will be given the choice of placing the nominated tonnage into another Committed Sugar Pool or the QSL Harvest Pool. If the Supplier fails to make such an allocation, then the tonnage is allocated to the QSL Harvest Pool.

13.2.2 Pricing Declaration Date and participation requirements

Suppliers must specify the quantity to be supplied to this pool by the Pricing Declaration Date for the season. For the 2016 Season, the Pricing Declaration Date is 29 February 2016. Growers may be required by their milling company to make their nominations earlier than this date for administrative reasons.

13.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

13.2.4 Pricing and foreign exchange management responsibilities

QSL is responsible for setting the guaranteed minimum return based on anticipated market prices of ICE 11 raw sugar in \$US and the associated foreign exchange conversion to deliver an \$A gross price.

13.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

13.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. Payments in the period May 2016 to November 2016 will be made in accordance with the Advance Payments program as determined by the QSL Board.

In December 2016 the advance rate for this pool is guaranteed to be a minimum of 90 per cent of the estimated net price. No further payments will be made for this pool after December 2016 until the advance rate for all other QSL-managed pools exceeds 90 per cent.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

13.2.7 Fees, costs and deductions

In addition to the allocation from the QSL Shared Pool (the QSL Shared Pool element referred to above), this pool will include an additional charge associated with its accelerated Advance Payment program which will be incorporated in the gross price of the pool. Other than the QSL Shared Pool allocation and the additional finance charge, QSL will not directly charge any other fees for this pool.

The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations, as indicated in section 13.2.5, are met directly by the Supplier that failed to supply the nominated tonnage. Should the unwinding of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers for the QSL-marketed pools decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs incurred to correct the export sales program. Any such costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

13.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

13.3.1 My Production Risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■■

13.3.2 Collective Production Risk

In the event that overall forecast deliveries to QSL-marketed pools decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

QSL Guaranteed Floor Pool (cont.)

13.3.3 Price Risk

This is a conservative pricing pool with a high level of price protection as tonnage is guaranteed a minimum gross price per tonne and a minimum \$A gross price per tonne. This return may be further enhanced via participating structures priced at the market on or after the first business day in March 2016.

As a result, this pool is considered to have a risk weighting lower than the Passive Management Benchmark. This is due to a range of factors including:

- the use of pricing instruments aimed at locking in a ‘floor’ price at the commencement of the season, which provide for only limited participation in any positive moves in raw sugar prices;
- no discretion granted to the pool manager, including no ability to reverse existing pricing; and
- a stable price risk management exposure to be managed as a result of the obligation to supply.

The return for this pool is not final until it receives an allocation from the QSL Shared Pool. Suppliers can expect movements in the pool and their net price to remain volatile until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ □ □ □

13.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ ■ □ □

13.4 PAST PERFORMANCE

SEASON	GROSS PRICE ACHIEVED IN \$/TONNE IPS		
	FLOOR PRICE	ACTUAL PRICE	PASSIVE MANAGEMENT BENCHMARK PERFORMANCE
2011	\$463	\$480	\$503
2012	\$477	\$481	\$417
2013	\$389	\$393	\$383
2014	\$427	\$429	\$394
2015*	\$405	\$407	\$389

* Passive Management Benchmark and actual figures representing projected final results as at 26 February 2016 based on marked-to-market forward raw sugar prices and spot foreign exchange rates. Updated results will be published on QSL's website (www.qsl.com.au) regularly until the final pool results have been determined. Final results may be more or less than these.

Past performance is provided for reference only and may not be indicative of future performance.



This page has been intentionally left blank.

CHAPTER 4

Pool 5 – QSL 2016 2-Season Forward Pool

This pool is a Committed Sugar Pool. Nominations into this pool closed at the end of February 2015.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the relevant future season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

QSL 2016 2-Season Forward Pool

14.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. QSL is responsible for the pricing decisions which set the gross price element of this pool. QSL may price the raw sugar in this pool in a more active manner than other pools, or than would be expected under a passive management approach. QSL will seek to exploit opportunities to produce a price outcome greater than the average returns produced by the Passive Management Benchmark and the Pool Specific Neutral Profile over a 26-month period, with pricing commencing no later than September 2015.

14.1 MANAGEMENT STRATEGY AND MECHANISMS USED

QSL will price this 2016 Season raw sugar across the 2015 and 2016 Seasons with the aim being to exceed the average return that could have been achieved if this 2016 Season raw sugar was priced evenly between the Pricing Declaration Date and the end of the 2016 Season, which is referred to as the Pool's Neutral Profile.

QSL will aim to achieve higher prices for the 2016 Season by making pricing decisions to align with more favourable market conditions (i.e. the pool manager may delay pricing relative to the Pool Specific Neutral Profile if they hold the view that prices will be better later and vice versa).

14.1.2 Discretionary pricing limits

The amount of discretion that can be used in making pricing decisions for this pool (i.e. the volume of raw sugar which must be priced gradually throughout the two seasons) is set by the QSL Board, and identifies the minimum and maximum amount of pricing and the value of foreign exchange transactions that must occur over a period of time. The actual percentage of pricing and foreign exchange transactions must be within +30/-30 per cent of the level indicated by the Pool Specific Neutral Profile for both the raw sugar price and foreign exchange. The Pool Specific Neutral Profile will price evenly over the two-season period plus the following amounts at the following market trigger levels:

Trigger levels	Benchmark amounts priced
A\$450	25% of remaining unpriced tonnage
A\$475	25% of remaining unpriced tonnage
A\$500	25% of remaining unpriced tonnage

These trigger levels aim to ensure the pool manager prices a minimum quantity when the market trades to seasonally high levels.

There is also discretion as to what types of derivative instruments can be used, such as futures contracts and commodity swaps.

14.1.3 Pool performance

Pool performance is reviewed on a daily basis and the strategy refined accordingly. A maximum allowable loss (stop-loss) limit, assessed against the Pool Specific Neutral Profile, is also set out in the QSL Financial Risk Management Policy and determines the point of underperformance at which QSL's discretion is suspended and corrective action must be undertaken.

14.1.4 Tools used

QSL will use a combination of outright pricing and options through the use of ICE 11 futures contracts and OTC instruments via banks. Once pricing is secured it is able to be reversed as some trading in and out of positions is allowed.

QSL 2016 2-Season Forward Pool (cont.)

14.2 KEY CHARACTERISTICS OF THE POOL

14.2.1 Minimum and maximum tonnage

Suppliers must nominate tonnages to QSL in increments of 304.815 tonnes (which is the equivalent of 6 ICE 11 futures contracts or “lots”).

The minimum tonnage Growers must provide to their mill to participate in this pool will be determined by their milling company, and may differ from mill to mill depending on the terms of the relevant agreement(s) between Growers and the milling company which they supply.

There is no maximum tonnage for this pool, but tonnage allocated to the 2016 Season Committed Sugar Pools cannot exceed 50 per cent of the Supplier’s total estimate of supply for the 2016 Season at the 2015 Season Pricing Declaration Date.

The futures pricing exposure for the 2016 Season will be:

RATIO	1	2	2	1
2016 Season	July 2016	October 2016	March 2017	May 2017

This pool may be cancelled at QSL’s discretion if the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes at the Pricing Declaration Date. If this pool is cancelled, Suppliers will be given the choice of placing the nominated tonnage into another Committed Sugar Pool or the QSL Harvest Pool at the 2016 Season Pricing Declaration Date. If the Supplier fails to make such an allocation, then the tonnage is allocated to the QSL Harvest Pool.

14.2.2 Pricing Declaration Date and participation requirements

Nominations to participate in this pool for the 2016 Season can be made by Suppliers between 1 January 2015 and 27 February 2015. No pricing will be done during this period. No changes to nominations will be allowed after 27 February 2015. At the conclusion of nominations, QSL (at its discretion) may cancel this pool where the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes. Pricing of this pool may commence from the first business day in March 2015.

14.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

14.2.4 Pricing and foreign exchange management responsibilities

QSL is responsible for managing the ICE 11 raw sugar price risk in \$US and the associated foreign exchange management to deliver an \$A gross price.

14.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations in the 2016 Season any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

14.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

14.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations as indicated in section 14.2.5 are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date of the 2016 Season, if combined deliveries from all Suppliers to QSL-marketed pools for the 2016 Season decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

14.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

14.3.1 My Production Risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that time, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: 

14.3.2 Collective Production Risk

In the event that overall forecast deliveries to QSL-marketed pools for the 2016 Season decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall, would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: 

QSL 2016 2-Season Forward Pool (cont.)

14.3.3 Price Risk

The pool is considered to have a risk weighting higher than the Passive Management Benchmark. This is due to a range of factors including:

- a relatively standard suite of allowable instruments to manage pricing available to the pool's manager although with discretion to undertake reversal of pricing within discretionary limits as some trading in and out of positions is allowed;
- a significant amount of discretion granted to the pool manager to lag or lead the level of raw sugar and foreign exchange pricing indicated by the Pool Specific Neutral Profile. Therefore the gross price is volatile up until the final raw sugar and foreign exchange pricing is completed for a season;
- a pricing window allowing pricing to commence 16 months prior to the commencement of the harvest for the season being priced; and
- a stable price risk management exposure to be managed as a result of the obligation to supply.

Whilst the gross price is locked in when raw sugar and foreign currency pricing is done, Suppliers can expect the net price for tonnage in this pool to remain volatile until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ ■ ■ □

14.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ ■ □ □

14.4 PAST PERFORMANCE

SEASON	GROSS PRICE ACHIEVED IN \$/TONNE IPS	
	ACTUAL PRICE	PASSIVE MANAGEMENT BENCHMARK PERFORMANCE
2013	\$419	\$383
2014	\$417	\$394
2015*	\$435	\$389

* Actual figures representing projected final results as at 26 February 2016 based on marked-to-market forward raw sugar prices and spot foreign exchange rates. Updated results will be published on QSL's website (www.qsl.com.au) regularly until the final pool results have been determined. Final results may be more or less than these.

Past performance is provided for reference only and may not be indicative of future performance.



This page has been intentionally left blank.

CHAPTER 4

Pool 6 – QSL 2017 2-Season Forward Pool

This pool is a Committed Sugar Pool and is only available to Suppliers contracted to QSL in the 2017 Season.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the relevant future season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

QSL 2017 2-Season Forward Pool

15.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. QSL is responsible for the pricing decisions which set the gross price element of this pool. QSL may price the raw sugar in this pool in a more active manner than other pools, or than would be expected under a passive management approach. QSL will seek to exploit opportunities to produce a price outcome greater than the average returns produced by the Passive Management Benchmark and the Pool Specific Neutral Profile over a 26-month period, with pricing commencing no later than September 2016.

15.1 MANAGEMENT STRATEGY AND MECHANISMS USED

QSL will price this 2017 Season raw sugar across the 2016 and 2017 Seasons, with the aim being to exceed the average return that could have been achieved if this 2017 Season raw sugar was priced evenly between the Pricing Declaration Date and the end of the 2017 Season, which is referred to as the pool's neutral profile.

QSL will aim to achieve higher prices for the 2017 Season by making pricing decisions to align with more favourable market conditions (i.e. the pool manager may delay pricing relative to the neutral profile if they hold the view that prices will be better later and vice versa).

15.1.1 Discretionary pricing limits

The amount of discretion that can be used in making pricing decisions for this pool (i.e. the volume of raw sugar which must be priced gradually throughout the two seasons) is set by the QSL Board, and identifies the minimum and maximum amount of pricing and the value of foreign exchange transactions that must occur over a period of time. The actual percentage of pricing and foreign exchange transactions must be within +30/-30 per cent of the level indicated by the Pool Specific Neutral Profile for both the raw sugar price and foreign exchange. The Pool Specific Neutral Profile will price evenly over the two-season period plus the following amounts at the following market trigger levels:

Trigger levels	Benchmark amounts priced
A\$450	25% of remaining unpriced tonnage
A\$475	25% of remaining unpriced tonnage
A\$500	25% of remaining unpriced tonnage

These trigger levels aim to ensure the pool manager prices a minimum quantity when the market trades to seasonally high levels.

There is also discretion as to what types of derivative instruments can be used, such as futures contracts and commodity swaps.

15.1.2 Pool performance

Pool performance is reviewed on a regular basis and the strategy refined accordingly. A maximum allowable loss (stop-loss) limit, assessed against the Pool Specific Neutral Profile, is also set out in the QSL Financial Risk Management Policy and determines the point of underperformance at which QSL's discretion is suspended and corrective action must be undertaken.

15.1.3 Tools used

QSL will use a combination of outright pricing and options through the use of ICE 11 futures contracts and OTC instruments via banks. Once pricing is secured it is able to be reversed as some trading in and out of positions is allowed.

QSL 2017 2-Season Forward Pool (cont.)

15.2 KEY CHARACTERISTICS OF THE POOL

15.2.1 Minimum and maximum tonnage

Suppliers, on behalf of growers, must nominate tonnages to QSL in increments of 304.815 tonnes (which is the equivalent of 6 ICE 11 futures contracts or “lots”).

The minimum tonnage growers must provide to their mill to participate in this pool will be determined by their milling company and may differ from mill to mill depending on the terms of the relevant agreement(s) between growers and the milling company which they supply.

There is no maximum tonnage for this pool, but tonnage allocated to 2017 Season Committed Sugar Pools cannot exceed 50 per cent of the Supplier’s total estimate of supply for the season at the Pricing Declaration Date.

The futures pricing exposure for the 2017 Season will be:

RATIO	1	2	2	1
2016 Season	July 2017	October 2017	March 2018	May 2018

This pool may be cancelled at QSL’s discretion if the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes at the Pricing Declaration Date. If this pool is cancelled, Suppliers will be given the choice of placing the nominated tonnage into another Committed Sugar Pool or the QSL Harvest Pool at the 2017 Season Pricing Declaration Date. If the Supplier fails to make such an allocation, then the tonnage is allocated to the QSL Harvest Pool.

15.2.2 Pricing Declaration Date and participation requirements

Nominations to participate in this pool for the 2017 Season can be made by Suppliers between 2 January 2016 and 29 February 2016. No pricing will be done during this period. No changes to nominations will be allowed after 29 February 2016. At the conclusion of nominations, QSL (at its discretion) may cancel this pool where the total tonnage for the pool declared by all Suppliers is less than 30,000 tonnes. Pricing of this pool may commence from the first business day in March 2016.

15.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

15.2.4 Pricing and foreign exchange management responsibilities

QSL is responsible for managing the ICE 11 raw sugar price risk in \$US and the associated foreign exchange management to deliver an \$A gross price.

15.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations in the 2017 Season any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

15.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

15.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations, as indicated in section 15.2.5, are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date of the 2017 Season, if combined deliveries from all Suppliers to QSL-marketed pools for the 2017 Season decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall, will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

15.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

15.3.1 My Production Risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that time, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: 

15.3.2 Collective Production Risk

In the event that overall forecast deliveries to QSL-marketed pools for the 2017 Season decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs (or gains) remaining, after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall, would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: 

QSL 2017 2-Season Forward Pool (cont.)

15.3.3 Price risk

The pool is considered to have a risk weighting higher than the Passive Management Benchmark. This is due to a range of factors including:

- a relatively standard suite of allowable instruments to manage pricing available to the pool's manager although with discretion to undertake reversal of pricing within discretionary limits as some trading in and out of positions is allowed;
- a significant amount of discretion granted to the pool manager to lag or lead the level of raw sugar and foreign exchange pricing indicated by the Pool Specific Neutral Profile. Therefore the gross price is volatile up until the final raw sugar and foreign exchange pricing is completed for a season;
- a pricing window allowing pricing to commence 16 months prior to the commencement of the harvest for the season being priced; and
- a stable price risk management exposure to be managed as a result of the obligation to supply.

Whilst the gross price is locked in when raw sugar and foreign currency pricing is done, Suppliers can expect the net price for tonnage in this pool to remain volatile until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ ■ ■ □

15.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■ ■ ■ □ □

15.4 PAST PERFORMANCE

SEASON	GROSS PRICE ACHIEVED IN \$/TONNE IPS	
	ACTUAL PRICE	PASSIVE MANAGEMENT BENCHMARK PERFORMANCE
2013	\$419	\$383
2014	\$417	\$394
2015*	\$442*	\$389*
2016*	\$458*	N/A**

*Passive Management Benchmark and actual figures representing projected final results as at 26 February 2016 based on marked-to-market forward raw sugar prices and spot foreign exchange rates. Updated results will be published on QSL's website (www.qsl.com.au) regularly until the final pool results have been determined. Final results may be more or less than these.

** The Passive Management Benchmark is not available for the 2016 Season as it has not yet commenced.

Past performance is provided for reference only and may not be indicative of future performance.



This page has been intentionally left blank.

CHAPTER 4

Pool 7 – Fixed Price Forward Contract

This pool is a Committed Sugar Pool.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

Fixed Price Forward Contract

16.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. This pool enables Suppliers to fix the gross price element (i.e. the price for raw sugar before the QSL Shared Pool element is added or deducted) of the net price for this pool for a nominated tonnage if the market trades to an \$A target price ahead of the season in which that raw sugar is produced.

Suppliers are able to price raw sugar for up to three (3) years in advance of the Pricing Declaration Date for the relevant season (approximately four (4) years in advance of the season's harvest commencing).

This pool aims to provide opportunities for Suppliers to capture a gross price above the cost of production if the market trades to that \$A/tonne target price. This pool does not provide any mechanism for Suppliers to manage the QSL Shared Pool element of the net price. As such, Suppliers to this pool remain exposed to potentially adverse allocations from the QSL Shared Pool.

16.1 MANAGEMENT STRATEGY AND MECHANISMS USED

QSL will manage orders from Suppliers in the OTC market and will price the nominated tonnage once the OTC market reaches the Supplier's target price.

QSL will price the tonnage in the OTC market on a 'best endeavours' basis. QSL will price as much of the allocated tonnage as market conditions will allow (i.e. will meet market demand).

Any tonnage priced on any given day will be shared amongst participants who have unpriced tonnage for the same price target and season. This will be allocated on a pro-rata basis.

Target prices are on an \$A/tonne actual basis for the gross price element of the pool return. The QSL Shared Pool element (determined from the allocation from the QSL Shared Pool for the relevant season for which tonnage is priced) will be added to the gross price to arrive at the final net price received from the pool. Suppliers and Growers should read the Overview for the QSL Shared Pool (section 20.0 of this Guide) to ensure they understand the other revenues and costs that may be allocated to this pool from the QSL Shared Pool.

A Supplier can place an order to price raw sugar in this pool for a particular season prior to 4pm on any Brisbane business day up to the Pricing Declaration Date for that season, being the last business day in the February prior to the start of the season's crush.

Any tonnage not priced for a particular season at the end of each business day will be carried forward to be priced at the next market opportunity, provided that target order is not cancelled or withdrawn, up until the Pricing Declaration Date for that season.

Suppliers can also amend tonnage and target price orders on any Brisbane business day up to and including the Pricing Declaration Date.

If a Supplier's target price for a season has not been achieved after the Pricing Declaration Date has passed for that season, then the Supplier may allocate the tonnage to a current-season Committed Sugar Pool/s. If the Supplier fails to make such an allocation, then the tonnage will be allocated to the QSL Harvest Pool. Suppliers and Growers should read the Pool Description for the QSL Harvest Pool for information about how the price for raw sugar in that pool is determined.

Fixed Price Forward Contract (cont.)

16.2 KEY CHARACTERISTICS OF THE POOL

16.2.1 Minimum and maximum tonnage

Minimum tonnage nominated is 6 lots (304.815 tonnes) of ICE 11 contracts, and Suppliers must specify the quantity of the relevant season's raw sugar production in whole multiples of 6 lots of ICE 11 contracts.

Futures pricing exposure from 1 March 2016 is as follows:

RATIO	1	2	2	1
2016 Season	July 2016	October 2016	March 2017	May 2017

There is no maximum tonnage, but tonnage allocated to Committed Sugar Pools forming a part of a Supplier's committed tonnage for the 2016 Season cannot exceed the following levels for each season.

	2015	2016	2017	2018	2019
Limit	65%	50%	40%	30%	25%

16.2.2 Participation Declaration Date and participation requirements

A Supplier may submit an order for a particular season to QSL before 4pm on any Brisbane business day prior to the Pricing Declaration Date for the relevant season. Suppliers can also amend tonnage and target price orders on any Brisbane business day up to and including the Pricing Declaration Date for the relevant season.

16.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

16.2.4 Pricing and foreign exchange management responsibilities

This pool has its gross price derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. Target pricing levels are determined and set by Suppliers.

QSL is responsible for managing the raw sugar price risk in \$US, and the associated foreign exchange management, to deliver the \$A target gross price nominated by the Supplier.

16.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the financial outcome of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

16.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

16.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations, as indicated in section 16.2.5, are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools for the relevant season decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

16.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

16.3.1 My Production risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must meet any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■■

16.3.2 Collective Production risk

In the event that overall forecast deliveries to QSL-marketed pools for the relevant season decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

Fixed Price Forward Contract (cont.)

16.3.3 Price risk

Once raw sugar and foreign currency is priced, there is a high level of price protection for the gross price to the extent the market allows QSL to capture the Australian-dollar target for the gross price element set by the Supplier. The gross price element for this pool is derived from the ICE 11 futures market. Returns may be volatile prior to pricing being done. Hence, the main risk is that the market does not meet the Supplier's target price, resulting in unpriced tonnage and the risk then depends upon how the pricing of that unpriced tonnage is managed.

Other factors, such as the pricing window and effective level of discretion, are dependent on Supplier policies and actions.

The return for this pool is not final until it receives an allocation from the QSL Shared Pool. While the gross price is locked in when pricing is done, Suppliers can expect the net price to remain volatile, with movements in raw sugar prices and the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:

DEPENDENT ON SUPPLIER ACTIONS

16.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK:

■ ■ ■ □ □

16.4 PAST PERFORMANCE

Due to the nature of the Fixed Price Forward Contract pool, past performance will vary by Supplier.



This page has been intentionally left blank.

CHAPTER 4

Pool 8 – In-Season Fixed Price Contract

This pool is a Committed Sugar Pool.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

In-Season Fixed Price Contract

17.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. This pool enables Suppliers to fix the gross price element (i.e. the price for raw sugar before the QSL Shared Pool element is added or deducted) of the net price for this pool for a nominated tonnage if the market trades to an \$A target price within the season it will be produced. Pricing can commence from the Pricing Declaration Date up until 16 September of the same year.

This pool aims to provide opportunities for Suppliers to capture a gross price above the cost of production if the market trades to that \$A/tonne target price. This pool does not provide any mechanism for Suppliers to manage the QSL Shared Pool element of the net price. As such, Suppliers to this pool remain exposed to potentially adverse allocations from the QSL Shared Pool.

17.1 MANAGEMENT STRATEGY AND MECHANISMS USED

Suppliers nominate an amount of current-season tonnage to be priced until 16 September in that season. QSL will, on a 'best endeavours' basis, price the nominated tonnage for a minimum target price for the season, should the market reach that price.

Any tonnage priced on any given day will be shared amongst participants who have unpriced tonnage for the same price target and season. This will be done on a pro-rata basis (on allocated tonnage).

Futures pricing exposure from 1 March 2016 until 15 June 2017 is fixed (for the 2016 Season) as follows:

ICE 11 CONTRACT	JULY 2016	OCTOBER 2016	MARCH 2017	MAY 2017
Ratio	1	2	2	1

If the Supplier's target price has not been achieved by 15 June in the year of the Pricing Declaration Date, QSL will roll the unpriced ICE 11 July contract tonnage forward to be priced against the October futures contract.

QSL will advise the Supplier of the costs incurred or benefits achieved, together with transactional costs from this, and unpriced tonnage will then be priced on the basis of the following fixed futures exposure until 16 September 2016:

ICE 11 CONTRACT	JULY 2016	OCTOBER 2016	MARCH 2017	MAY 2017
Ratio	-	3	2	1

Any tonnage not priced at the end of each business day will be carried forward to be priced at the next market opportunity, up until 16 September 2016.

Suppliers can amend target price orders until 4pm on any Brisbane business day from 1 March until 16 September in the same year.

Any unpriced tonnage at 16 September will be priced at market prices on the basis of the futures exposure prior to the ICE 11 October contract expiry at QSL's discretion.

In-Season Fixed Price Contract (cont.)

17.2 KEY CHARACTERISTICS OF THE POOL

17.2.1 Minimum and maximum tonnage

Minimum tonnage nominated is 6 lots (304.815 tonnes) of ICE 11 contracts, and Suppliers must specify the quantity of the relevant season's raw sugar production in whole multiples of 6 lots of ICE 11 contracts.

There is no maximum tonnage, but tonnage allocated to Committed Sugar Pools cannot exceed 65 per cent of the Supplier's total estimate of supply for the season.

17.2.2 Pricing Declaration Date and participation requirements

Suppliers must specify the quantity to be priced in this pool by the Pricing Declaration Date.

17.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

17.2.4 Pricing and foreign exchange management responsibilities

This pool has its gross price derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. Target \$A denominated gross pricing levels are determined and set by Suppliers.

QSL then has responsibility for managing the raw sugar price risk in US dollars and the associated foreign exchange management, to deliver the \$A target prices nominated by the Supplier.

17.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

17.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

17.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations, as indicated in section 17.2.5, are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

17.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

17.3.1 My Production risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■■

17.3.2 Collective Production risk

Costs associated with a failure to meet supply obligations are met directly by the Supplier that failed to supply the nominated tonnage.

In the event that overall forecast deliveries to QSL-marketed pools decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

17.3.3 Price risk

Once raw sugar and foreign currency is priced, there is a high level of price protection for the gross price to the extent the market allows QSL to capture the Australian-dollar target for the gross price element set by the Supplier. The gross price element for this pool is derived from the ICE 11 futures market. Returns may be volatile prior to pricing being done. Hence, the main risk is that the market does not meet the Supplier's target price, resulting in unpriced tonnage and the risk then depends upon how the pricing of that unpriced tonnage is managed.

Other factors, such as the pricing window and effective level of discretion, are dependent on Supplier policies and actions.

The return for this pool is not final until it receives an allocation from the QSL Shared Pool. While the gross price is locked in when pricing is done, Suppliers can expect the net price to remain volatile with movements in raw sugar prices and the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: DEPENDENT ON SUPPLIER ACTIONS

17.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

17.4 PAST PERFORMANCE

Due to the nature of the In-Season Fixed Price Contract pool, past performance will vary by Supplier.

Target Price Contract

18.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. This pool enables Suppliers to fix the gross price element (i.e. the price for raw sugar before the QSL Shared Pool element is added or deducted) of the net price for this pool for a nominated tonnage if the market trades to an \$A target price ahead of the season in which that raw sugar is produced.

Suppliers are able to price raw sugar for up to three (3) years in advance of the Pricing Declaration Date and during the current season up to 15 June for the relevant season (approximately four (4) years in advance of the season's harvest commencing).

This pool aims to provide opportunities for Suppliers to capture a gross price above the cost of production if the market trades to that \$A/tonne target price. This pool does not provide any mechanism for Suppliers to manage the QSL Shared Pool element of the net price. As such, Suppliers to this pool remain exposed to potentially adverse allocations from the QSL Shared Pool.

18.1 MANAGEMENT STRATEGY AND MECHANISMS USED

QSL will manage orders from Suppliers in the OTC market and will price the nominated tonnage once the OTC market reaches the Supplier's target price.

QSL will price the tonnage in the OTC market on a 'best endeavours' basis. QSL will price as much of the allocated tonnage as market conditions will allow (i.e. will meet market demand).

Any tonnage priced on any given day will be shared amongst participants who have unpriced tonnage for the same price target and season. This will be allocated on a pro-rata basis.

Target prices are on an \$A/tonne actual basis for the gross price element of the pool return and must be specified in A\$5 increments. The QSL Shared Pool element (determined from the allocation from the QSL Shared Pool for the relevant season for which tonnage is priced) will be added to the gross price to arrive at the final net price received from the pool. Suppliers and Growers should read the Overview for the QSL Shared Pool (section 20.0 of this Guide) to ensure they understand the other revenues and costs that may be allocated to this pool from the QSL Shared Pool.

A Supplier can place an order to price raw sugar in this pool for a particular season prior to 4pm on any Brisbane business day up to the Pricing Declaration Date for that season, being the last business day in the February prior to the start of the season's crush.

Any tonnage not priced for a particular season at the end of each business day will be carried forward to be priced at the next market opportunity, provided that target order is not cancelled or withdrawn, up until the Pricing Declaration Date for that season.

Suppliers can also amend tonnage and target price orders on any Brisbane business day up to 15 June (inclusive) in the year that crushing commences.

18.2 KEY CHARACTERISTICS OF THE POOL

18.2.1 Minimum and maximum tonnage

Minimum tonnage nominated is 50.8025 metric tonnes of sugar.

Futures pricing exposure from 1 March 2016 is as follows:

RATIO	1	2	2	1
2016 Season	July 2016	October 2016	March 2017	May 2017

There is no maximum tonnage, but tonnage allocated to Committed Sugar Pools forming a part of a Supplier's committed tonnage for the 2016 Season cannot exceed the following levels for each season.

Target Price Contract (cont.)

Prior to the Pricing Declaration Date tonnage only becomes committed once it is priced. On the Pricing Declaration Date all unfilled orders, unless cancelled by the Supplier, become a binding commitment for the Supplier.

	2015	2016	2017	2018	2019
Limit	65%	50%	40%	30%	25%

18.2.2 Price Increments

Targets prices must be specified in A\$5 increments.

For example:

A\$400	A\$405	A\$410	A\$415	A\$420
--------	--------	--------	--------	--------

18.2.3 Participation Declaration Date and participation requirements

A Supplier may submit an order for a particular season to QSL before 4pm on any Brisbane business day prior to the Pricing Declaration Date for the relevant season. If a Supplier's target price for a season has not been achieved by the Pricing Declaration Date, the Supplier may cancel unfilled orders for that season, and allocate the tonnage to a current-season Committed Sugar Pool(s) or the QSL Harvest Pool. Alternatively, Suppliers may retain unfilled orders or add new orders. New and unfilled orders at this point become committed tonnage that must be priced by 15 June. Orders whose targets have not been reached by 15 June will be priced by QSL at the first market opportunity after 15 June.

18.2.4 Marketing responsibilities

QSL markets the raw sugar in this pool.

18.2.5 Pricing and foreign exchange management responsibilities

This pool has its gross price derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. Target pricing levels are determined and set by Suppliers.

QSL is responsible for managing the raw sugar price risk in \$US, and the associated foreign exchange management, to deliver the \$A target gross price nominated by the Supplier.

18.2.6 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the financial outcome of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

18.2.7 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

18.2.8 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not directly charge fees for this pool. The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations, as indicated in section 18.2.6, are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools for the relevant season decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

18.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

18.3.1 My Production risk

This is a fixed tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must meet any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■■

18.3.2 Collective Production risk

In the event that overall forecast deliveries to QSL-marketed pools for the relevant season decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform, as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

18.3.3 Price risk

Once raw sugar and foreign currency is priced, there is a high level of price protection for the gross price to the extent the market allows QSL to capture the Australian-dollar target for the gross price element set by the Supplier. The gross price element for this pool is derived from the ICE 11 futures market. Returns may be volatile prior to pricing being done. Hence, the main risk is that the market does not meet the Supplier's target price, resulting in unpriced tonnage and the risk then depends upon how the pricing of that unpriced tonnage is managed.

Other factors, such as the pricing window and effective level of discretion, are dependent on Supplier policies and actions.

The return for this pool is not final until it receives an allocation from the QSL Shared Pool. While the gross price is locked in when pricing is done, Suppliers can expect the net price to remain volatile with movements in raw sugar prices and the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: DEPENDENT ON SUPPLIER ACTIONS

18.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

18.4 PAST PERFORMANCE

Due to the nature of the Fixed Price Forward Contract pool, past performance will vary by Supplier.

CHAPTER 4

Pool 10 – Supplier Pricing Scheme

This pool is a Committed Sugar Pool.

Committed Sugar Pools require a Supplier to commit a fixed volume of raw sugar by the Pricing Declaration Date. A Supplier must supply this raw sugar regardless of crop variations. As a contractual commitment is made prior to delivery, QSL may market and Suppliers may price this raw sugar prior to the harvest commencing.

Any tonnage priced in this pool will form part of a Supplier's committed tonnage for the season.

A Supplier may offer one or more of QSL's pools to their Growers as part of the relevant agreement(s) between Growers and the milling company which they supply. How and whether this pool is made available to Growers is a matter to be determined in accordance with the terms of the relevant agreement(s) between Growers and the milling company which they supply.

Supplier Pricing Scheme

19.0 POOL MANAGEMENT OBJECTIVES

This pool is an ICE 11 pool and its gross price is derived from the ICE 11 futures market which is converted from US dollars to an Australian-dollar return. This pool provides a mechanism to allow Suppliers to fix the gross price element (i.e. the price for raw sugar before the QSL Shared Pool element is added or deducted) of the net price for this pool for a nominated tonnage by directly managing the raw sugar pricing and exchange rate cover process themselves (or appointing an authorised third-party pricing manager to do so).

Suppliers may use this mechanism to allow Growers to run their own local Supplier/Grower pools or price their corporate/mill share of raw sugar provided for under the local cane pricing formula. This means that the pool may, in effect, be made up of a number of smaller pools operated by individual Suppliers.

This pool aims to provide opportunities for Suppliers to set a gross price during the season at a timing of their choosing. This pool does not provide any mechanism for Suppliers to manage the QSL Shared Pool element of the net price. As such, Suppliers to this pool remain exposed to potentially adverse allocations from the QSL Shared Pool.

19.1 MANAGEMENT STRATEGY/MECHANISMS USED

The objective of this pool is to provide a close-out mechanism for pricing:

1. undertaken by the Supplier or an authorised third-party pricing manager; or
2. on behalf of an individual Grower or a collective of Growers.

The Supplier is able to transact raw sugar pricing and foreign exchange transactions together or separately to set the gross price under its own guidelines, subject to timing constraints prescribed within the RSSA.

The QSL Shared Pool element will be added to or subtracted from the gross price achieved by the Supplier or third-party manager to arrive at the pool's final net price.

Suppliers and Growers should read the Pool Description for the QSL Shared Pool to ensure they understand the other revenues and costs that may be allocated to this pool from the QSL Shared Pool.

19.2 KEY CHARACTERISTICS OF THE POOL

19.2.1 Minimum and maximum tonnage

Suppliers must nominate tonnages to QSL in increments of 304.815 tonnes (which is the equivalent of 6 ICE 11 futures contracts or "lots").

The minimum amount of tonnage Growers must provide to their mill to participate in this pool will be determined by their milling company, and may differ from mill to mill depending on the terms of the relevant agreement(s) between Growers and milling companies which they supply. There is no maximum tonnage, but tonnage allocated to Committed Sugar Pools cannot exceed 65 per cent of the Supplier's delivery estimate at the Pricing Declaration Date.

For each 304.815 metric tonnes (6 lots) nominated to this pool the Supplier must price the following ratio of ICE 11 contracts.

ICE 11 CONTRACT	JULY 2016	OCTOBER 2016	MARCH 2017	MAY 2017
Ratio	1	2	2	1

For a discrete tonnage to be treated as a separate Supplier Pricing Scheme pool, the nominated tonnage must be a minimum of 30,000 metric tonnes. Pools of less than 30,000 metric tonnes will only be run at QSL's sole discretion and may attract a fee.

Discrete pools nominated by Suppliers will have their own net price, made up of its gross price achieved and a QSL Shared Pool element.

Supplier Pricing Scheme (cont.)

19.2.2 Pricing Declaration Date and participation requirements

Suppliers must specify the quantity to be supplied to this pool by the Pricing Declaration Date for the season. The Pricing Declaration Date is the last business day of February prior to the start of the harvest.

19.2.3 Marketing responsibilities

QSL markets the raw sugar in this pool.

19.2.4 Pricing and foreign exchange management responsibilities

The Supplier has responsibility for managing the raw sugar price risk in \$US and the associated foreign exchange management, to deliver the \$A gross price. The Supplier's responsibility is extended to situations where an authorised third-party pricing manager is used.

19.2.5 Supply obligations

As this is a Committed Sugar Pool, if a Supplier fails to meet its supply obligations any costs (or gains) associated with the unwinding of pricing positions or cancellation of sales to customers will be passed on directly to the Supplier in accordance with the terms of the relevant RSSA.

How these costs (or gains) are passed on to Growers from milling companies will be determined by the relevant agreement(s) between Growers and the milling company which they supply.

19.2.6 Schedule for payments to Suppliers

Suppliers will receive Advance Payments from QSL in the season the raw sugar is delivered. The pattern of payments includes an initial delivery payment of up to 60 per cent made within seven (7) days of delivery and periodic top-up payments made throughout the balance of the season in accordance with the Advance Payments program determined by the QSL Board (outlined in section 6.0 of this Guide). The final Advance Payment is usually made in late July of the following year.

Payments to Growers from Suppliers will be made in accordance with the relevant agreement(s) between Growers and the milling company which they supply.

19.2.7 Fees, costs and deductions

Other than the allocation from the QSL Shared Pool (the QSL Shared Pool element described in section 5.2 of this Guide), QSL does not generally directly charge fees for this pool where the nomination meets the minimum size as per section 19.2.1. Pools of less than 30,000 metric tonnes may attract an administration fee from QSL.

The QSL Shared Pool is a pool through which the revenues and costs derived from the marketing activities, or as a consequence of participation in the RSSA arrangements, are shared across the participating Suppliers.

Costs associated with the failure to meet supply obligations as indicated in Section 19.2.5 are met directly by the Supplier that failed to supply the nominated tonnage. Should the financial outcome of transactions associated with the failure to meet supply obligations result in a gain, this gain will be passed on to the Supplier.

After the Pricing Declaration Date, if combined deliveries from all Suppliers to QSL-marketed pools decline by more than the tonnage allocated to the Production Buffer Tranche of the QSL Harvest Pool, there may be costs (or gains) incurred to correct the export sales program. Any costs (or gains) remaining after any Suppliers who failed to deliver their raw sugar allocated to the Committed Sugar Pools have provided financial compensation for that shortfall will be passed on to all QSL-marketed pools via an allocation from the QSL Shared Pool.

19.3 RISK PROFILE

The following risk assessment is made by comparing the pricing strategy for this pool against the Passive Management Benchmark.

The Passive Management Benchmark is detailed in section 9.3 of this Guide and is taken as the neutral (middle) point on the risk scale.

19.3.1 My Production risk

This is a fixed-tonnage pool with a firm commitment to supply as soon as the Supplier's nomination to the pool has been accepted by QSL. After that point, the production and delivery risks rest with the Supplier. Where a Supplier fails to fulfil its obligation to the pool, the Supplier must compensate QSL for any costs associated with the unwinding of pricing positions or wash out of physical sales (should the financial outcome of these transactions result in a gain, this gain will be paid back to the Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■■■

19.3.2 Collective Production risk

In the event that overall forecast deliveries to QSL-marketed pools decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, this pool may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-marketed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

19.3.3 Price risk

Once raw sugar and foreign currency is priced, there is a high level of price protection for the gross price to the extent the market allows QSL to capture the Australian-dollar target for the gross price element set by the Supplier. The gross price element for this pool is derived from the ICE 11 futures market. Returns may be volatile prior to pricing being done. Hence, the main risk is that the market does not meet the Supplier's target price, resulting in unpriced tonnage and the risk then depends upon how the pricing of that unpriced tonnage is managed.

Other factors, such as the pricing window and effective level of discretion, are dependent on Supplier policies and actions.

The return for this pool is not final until it receives an allocation from the QSL Shared Pool. While the gross price is locked in when pricing is done, Suppliers can expect the net price to remain volatile with movements in raw sugar prices and the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised for the season.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: DEPENDENT ON SUPPLIER ACTIONS

19.3.4 Logistics constraints

Logistics constraints include storage capacity, availability of facilities and equipment for receiving, and ship loading and shipping capacity. For this pool those constraints are the same as those applying to the Passive Management Benchmark, which assumes a storage capacity of 1.6 million tonnes and the full availability of necessary infrastructure and equipment to meet the sales program.

RISK ASSESSMENT RELATIVE TO THE PASSIVE MANAGEMENT BENCHMARK: ■■■□□

19.4 PAST PERFORMANCE

Performance of this pool can only be measured by Suppliers and Growers themselves as QSL is not responsible for managing the pricing in this pool.

QSL Shared Pool

20.0 RSSA SHARED REVENUES AND COSTS

The revenues and costs that are applied to all pools on the same \$/tonne basis, include:

- the costs of storage and handling at the bulk sugar terminals, including rental and other costs incurred under the sub-lease of the terminals from Sugar Terminals Limited;
- the costs of analysing the quality of raw sugar delivered to QSL under the RSSA and administering QSL's quality scheme;
- the QSL Shared Services Costs, being the costs of operating QSL that are common to the operation of all the RSSAs (irrespective of how the sugar delivered is marketed);
- a RSSA Port Differential Levy, which is a levy applied to fund the provision of the RSSA Port Differential Rebate to pools to fund QSL's assessment of the freight differential for pools which QSL requires to ship from ports other than that which has the lowest freight cost;
- an Additional Port Loading Levy, which is a levy applied to fund the provision of rebates to pools which QSL requires to ship using a two-port load;
- harbour dues payable by QSL to port authorities (less the amounts contributed by Suppliers on the base of certain rates per tonne which have historically applied to deliveries at each terminal);
- the fixed costs of operating and maintaining QSL's fixed financing facilities to fund the operations of the RSSAs (which are fixed irrespective of the amounts for which the facilities are actually drawn on);
- the costs of claims by raw sugar customers regarding GGM (high-floc sugar) sold to the customer by QSL where the Supplier which delivered the GGM sugar met all of its obligations under the RSSA regarding managing that raw sugar; and
- a rebate reflecting QSL's corporate net income from non-sugar pool-related activities, such as the income from the storage of non-sugar products in the bulk sugar terminals (the QSL Shared Services Charge Rebate).

20.1 POOL-SPECIFIC RSSA REVENUES AND COSTS

Pool-specific revenues and costs are applied to pools depending on whether the Supplier or QSL markets the sugar for the pool. For the QSL-marketed pools these items of revenue represent the portion of the value of export sales revenue from an export customer that is not derived from the futures market. Such amounts include:

- regional and freight premiums;
- polarisation and quality premiums; and
- other marketing revenue.

Offset against these revenues are the marketing costs that are directly incurred by QSL in making or performing sales of raw sugar to customers. These costs are allocated to QSL-marketed pools only and include:

- sea freight (i.e. the actual cost of delivering raw sugar to customers);
- discharge port costs (e.g. the supervision of weighing and sampling of raw sugar at the customer's port where required);
- banking and executions costs (e.g. the cost of confirming Letters of Credit and other banking fees, futures brokerage and other commissions incurred);
- quota purchases (the cost of acquiring US quota from milling companies that do not supply to QSL under the RSSA); and
- any other costs that relate to marketing activities of QSL, which can include costs for unwinding forward pricing and sales if these tonnages are not received (Production Buffer Failure costs).

Most of the items are earned or paid in US dollars. When reporting these marketing revenues and costs, QSL nets them off against each other to derive the FOB value of raw sugar sold from Queensland (i.e. the value of total net revenue delivered from QSL's marketing activity).

QSL Shared Pool (cont.)

The US-dollar net value of the marketing returns and costs in the QSL Shared Pool will be converted to Australian dollars at the \$A/\$US rate hedged by QSL in accordance with requirements provided in the QSL Financial Risk Management Policy.

Other costs and rebates which are allocated on a pool-specific basis include:

- brand allowances (to Suppliers for delivering alternative brands of raw sugar) – only relevant to QSL-marketed pools;
- banking and execution costs;
- finance charges (not recovered as part of the RSSA Shared Costs reflecting the fixed costs of QSL's committed facilities);
- overhead costs of QSL's marketing services – only relevant to QSL-marketed pools; and
- a rebate for the net revenue derived from the pricing, sales and financing facilities which QSL operates in respect of third-party origin (i.e. non-Queensland) sugar – only relevant to QSL-marketed pools.

QSL also operates a system of levies and rebates which is intended to make the shippers of RSSA sugar more or less financially indifferent to which bulk sugar terminal sugar shipments are loaded from. These are outlined in section 20.0 of this Guide.

20.2 SUPPLIER-SPECIFIC RSSA COSTS

There are costs which have the potential to be allocated on a Supplier-specific basis. That means that the costs will be allocated as part of the QSL Shared Pool for all pools, QSL-marketed and the Supplier EI Pool, that the Supplier participates in. Typically, this will only arise for a Supplier in two (2) instances:

- where QSL incurs certain costs as a result of a Supplier's delivery of GGM (high-floc) raw sugar that has failed to comply with their obligations under the RSSA in respect of the management of such GGM sugar; or
- where QSL incurs a cost which is not otherwise automatically allocated as a general RSSA Shared Cost (see section 20.0), Pool-Specific Cost (see section 20.1) or a Supplier-Specific RSSA Cost (see above), and that cost is considered by QSL to be attributable to the Supplier.

20.3 NET ALLOCATIONS AND REPORTING

The allocations are summed by gross price type and a net per metric tonne IPS allocation is derived, which can be added to a gross price for a pool to give an Australian-dollar net per metric tonne IPS pool price. The QSL Shared Pool will be reported by QSL to Suppliers in the format illustrated in Table 17.

Table 17: QSL Shared Pool allocation report

All values in \$'000's	POOL TYPE				
	US QUOTA	LTC	ICE 11	SUPPLIER EI	TOTAL
\$US marketing revenue	\$US 2,209	\$US18,807	\$US137,202		\$US158,218
Less \$US marketing costs	\$US(4,404)	\$US(5,900)	\$US(47,700)		\$US(58,004)
Equals FOB \$US QLD return	\$US(2,195)	\$US12,907	\$US89,502		\$US100,213
\$US to \$A conversion — FOB \$A QLD return	\$A(2,261)	\$A13,376	\$A84,068		\$A95,183
Less RSSA costs	\$A(2,719)	\$A(5,900)	\$A(47,700)		\$A(56,319)
Equals net RSSA return	\$A(4,980)	\$A7,476	\$A36,368		\$A38,864
IPS tonnes	83,000	236,000	1,875,000		2,194,000
\$A per mt allocation	\$A(60.00) per mt IPS	\$A31.68 per mt IPS	\$A19.40 per mt IPS		\$A17.71 per mt IPS

Figures used are for illustrative purposes only.

20.4 RISK PROFILE

The value of the QSL Shared Pool is the result of a number of marketing and risk management decisions made by QSL in managing the entire supply chain from the bulk sugar terminals to a customer's wharf. The QSL Shared Pool acts as a mitigation tool for a number of risks in this supply chain by sharing these risks across a larger volume of raw sugar than would otherwise be the case.

Due to the different nature of the QSL Shared Pool, the risk assessment is not compared to the Passive Management Benchmark.

20.4.1 Production risk

The amount of marketing revenue in the QSL Shared Pool is a direct function of raw sugar availability from Suppliers. The marketing revenue in the QSL Shared Pool can fluctuate with shifts in export availability.

Except in rare circumstances, reductions in revenue should represent the opportunity cost of premium revenue foregone for sales that are not able to be made due to reductions in export supply.

The On-Delivery Component in the QSL Harvest Pool marketed for shipment outside the production season is designed to withstand a crop decline occurring after the Pricing Declaration Date in the order of 25 per cent of initial total estimated export tonnage, although it is important to note that this situation would be rare.

If the export supply from all Suppliers declines by more than the On-Delivery Component of the QSL Harvest Pool after the harvest has started (e.g. following an extreme weather event during the harvest) then, depending on the circumstances, there may be costs to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools.

Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).

20.4.2 Premiums and polarisation

Premium risk is managed primarily through the marketing program and plan, quality testing regimes and logistics capacity and performance. QSL's actions in these areas can generate improved premium returns through:

- timing the Sales Program to capture regional and freight premiums;
- managing the Sales Program and marketing activities to enable access to a diverse range of markets and customers;
- managing storage constraints and logistics requirements effectively to ensure the Sales Program runs smoothly;
- demonstrating a history of reliable, on-time freight delivery, assuring customers that contractual requirements in relation to timing will be met; and
- managing quality testing processes, blending and the quality incentive scheme, assuring customers that contractual requirements in relation to quality will be met.

The more flexibility QSL has in respect of each of these areas, the greater ability there is to manage premium risk and returns. Conversely, reduced flexibility results in a reduced ability to manage premium risk and returns. QSL's policies (approved by the QSL Board), including the Marketing Risk Management Policy, Freight Risk Management Policy and Sovereign and Counterparty Limits Framework, govern the limits and controls and level of flexibility permitted in regard to these areas.

As some of the marketing premiums are only locked-in in \$US terms when an export sale is concluded with a customer, and other premiums such as polarisation are determined only when the customer is invoiced, there remains a moderate amount of risk for the marketing revenue in the QSL Shared Pool which may be subject to movements until completion of the season's sales program.

20.4.3 Foreign exchange risk protection

There is a moderate amount of exposure for QSL Shared Pool allocations to foreign exchange markets. As export raw sugar is sold to customers in \$US, volatility in the \$A/\$US exchange rate will affect the level of premiums achieved for raw sugar marketed under the RSSAs.

QSL Shared Pool (cont.)

Suppliers can expect their net price to be received for tonnage in Committed Sugar Pools and the QSL Harvest Pool to remain volatile, with movements in the \$A/\$US exchange rate until the QSL Shared Pool allocation is finalised as part of the final payment process for a season under their RSSA. Foreign exchange risk is managed through the use of the instruments utilised for other pools, and is governed by conditions in the QSL Financial Risk Management Policy.

20.4.4 Sales program window

Marketing for raw sugar in some Committed Sugar Pools can take place up to three (3) years prior to the Pricing Declaration Date for the relevant season. The marketing for export pools is normally completed in June of the year after the harvest commences. Hence the total revenue earned in the QSL Shared Pool may be exposed to market movements over a number of years.

The pooling structure also provides for a level of sales discretion for QSL. For the purposes of physical sales, the discretion available to QSL can be separated into two (2) distinct components.

The first element of sales discretion is the timing of when raw sugar is able to be sold to customers. QSL's Marketing Risk Management Policy limits the amount of raw sugar that can be sold to customers prior to the Pricing Declaration Date (pre-season) and how much can be sold prior to the actual harvest commencing. These limits are derived from the amount of Committed Sugar and conditions placed on the marketing of the QSL Harvest Pool raw sugar as specified in the RSSAs.

The second element of discretion is the actual mix of sales QSL makes against each futures position, in order to fulfil the pricing done in each pool. QSL can make sales outside the profile provided by the Passive Management Benchmark, subject to limits set out in the QSL Marketing Risk Management Policy.

More detailed information is provided in section 1.0 of this Guide.

20.4.5 Length of shipment program

The shipping program will be undertaken over an approximate 12-month period from the start of harvest in the relevant season to July in the following year in the relevant season.

The component of the returns in any pool represented by its QSL Shared Pool allocation will remain volatile until the shipment program to customers for a season is complete. Thus, an allocation from the QSL Shared Pool will remain volatile until the sales program for a season is finalised.

20.4.6 Logistics

The amount of raw sugar that can be sold for shipment outside the harvest period is constrained by the amount of storage in the bulk sugar terminals. As such, the amount of storage and timing of raw sugar deliveries to bulk sugar terminals may drive the timing of sales and freight deliveries, reducing the ability of QSL to have full flexibility to maximise raw sugar prices, premiums and/or freight rates.

Operating costs and costs of storage and handling, including QSL staff and the sub-lease of the bulk sugar terminals, are budgeted and largely known prior to the harvest commencing.

20.4.7 Production Buffer Tranche failure

In the event that overall forecast deliveries to QSL-marketed pools decline by more than the On-Delivery Component of the QSL Harvest Pool after the Pricing Declaration Date, all QSL-managed pools may underperform as there may be costs incurred to correct the export sales program to support the pricing undertaken for the actual raw sugar delivered in all remaining pools. Any costs remaining after any Suppliers who failed to deliver their raw sugar allocated to Committed Sugar Pools have provided financial compensation for that shortfall would be passed to all Suppliers of QSL-managed sugar via an allocation from the QSL Shared Pool (i.e. the QSL Shared Pool element may be significantly negative, reducing the net price achieved by each Supplier).



This page has been intentionally left blank.

CHAPTER 5

Glossary of key terms

1:2:2:1 Sales Program	Committed Sugar Pools have a fixed pricing profile, with set portions to be priced against the July, October, March and May futures positions in the ratio of 1:2:2:1. That is, under this pricing profile, six (6) lots would be priced using one July futures contract, two October futures contracts, two March futures contracts and one May futures contract.
Advance Payments	A system of payments by QSL to Suppliers made in instalments throughout the season, both in and out of the harvesting season, partially in advance of receiving revenue from customers.
Against Actuals (AA)	A futures contract executed between two parties looking to close out their hedge positions where the parties agree to enter into a futures position with each other in exchange for an opposite position in the cash or physical market. The transaction is negotiated and executed privately off-market and then registered with the relevant futures exchange. Also referred to as Exchange for Physical (EFP).
\$A	Australian dollars.
Buyer Executable Order (BEO)	An order to buy futures contracts that arises under a physical raw sugar sales contract to be executed by the seller of physical raw sugar as and when instructed by the buyer for account of the seller (i.e. the seller assumes the liability for the futures contract). The price at which the BEO's futures contracts are executed will be the price (excluding any premiums) the buyer will pay the seller when invoiced for the physical raw sugar. The futures contracts bought by the seller are used to close out its hedge position (see section 7.0 of this Guide for detail).
Committed Sugar Pools	The tonnage of raw sugar that the Supplier must supply to the QSL-marketed pools under the RSSA. These pools require a Supplier to commit a contracted fixed volume of raw sugar before the season commences. A Supplier must supply this raw sugar, regardless of whether the crop volume or quality varies over the course of the season.
Cost and Freight (CFR)	An international term of sale where the seller pays the costs and freight necessary to bring the goods to the named port of destination, but the risk of loss of, or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the seller to clear the goods for export.
Cost and Freight Premium	The element of the price of a contract of sale for raw sugar that reflects the freight plus the physical premium charged to the buyer basis 96 degrees polarisation.
Cost, Insurance and Freight (CIF)	An international term of sale where the seller has the same obligations as under the CFR but also has to procure marine insurance against the buyer's risk of loss or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The CIF term requires the seller to clear the goods for export.

Free In Storage (FIS)	An international term of sale that means the seller is responsible for delivering the goods to the named place in the country of the buyer and pays all costs in bringing the goods to the destination, including import duties and taxes. The buyer is responsible for unloading the goods. This places maximum obligations on the seller and minimum obligations on the buyer. The equivalent International Commercial term (Incoterm) is DDP – Delivered Duty Paid (named place of destination).
Free on Board (FOB)	An international term of sale that means the seller fulfils their obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. The buyer pays for the cost of freight and insurance.
Futures Contract	A legally binding agreement made on the trading floor of a futures exchange to buy or sell a commodity or financial instrument at some time in the future at a specified price. Futures contracts are standardised according to quality, quantity, delivery time and location, with the only variable being price, which is determined on an exchange.
Futures Delivery Month	The month when delivery can take place under the terms of the futures contract. Also known as the contract or delivery month.
Gross Price	<p>The gross price of a pool represents the market price of raw sugar 'at the ship's rail', i.e. before any costs of storage/handling prior to shipment and/or destination/regional premiums and discounts have been added or deducted.</p> <p>The gross price element of a pool can be determined either from a futures market or by direct negotiation with the end user/customer.</p>
Grower	A supplier of cane to a Supplier or one of its Related Bodies Corporate under a contract with the Supplier or one of its Related Bodies Corporate.
Grower Economic Interest (EI) Sugar	Raw sugar for which Growers, excluding those Growers who are Related Bodies Corporate of a Supplier, bear the price exposure under the contractual arrangements between the Supplier and the Grower.
ICE	ICE Futures U.S., Inc. (formerly the New York Board of Trade).
ICE 11 Contract	A raw sugar futures contract (known as a world sugar No. 11) offered for sale or purchase by ICE.
ICE 11 Pools	Pools where the pricing mechanism is directly related to the ICE 11 contracts. These include the QSL Harvest Pool, QSL Actively Managed Pool, QSL Guaranteed Floor Pool, QSL 2016 2-Season Forward Pool, In-Season Fixed Price Contract, Fixed Price Forward Contract, Target Price Contract and the Supplier Pricing Scheme.
ICE 16 Contract	A raw sugar futures contract (known as the US domestic No. 16) offered for sale or purchase by ICE.
International Polarisation Scale (IPS)	The price adjustment scale described in the rules of the Sugar Association of London. It defines incremental price premiums and penalties applied to raw sugar above and below 96 degrees polarisation.
Margin Calls	The deposits paid to the ICE clearing house by both sellers and buyers of a futures contract guaranteeing their performance.

Glossary of key terms (cont.)

Maximum Allowable Loss (MAL)	The maximum allowable percentage of under performance against the Pool Specific Neutral Profile that QSL will be exposed to before discretionary limits are suspended.
Option	An agreement that gives the right but not the obligation to buy (call) or sell (put) a particular asset, commodity or financial instrument at a certain price for a period of time.
Options on Futures Contracts	An option to buy or sell futures contracts at a specified strike price at a specified time.
Over-the-Counter (OTC)	Where the participants arrange bilateral agreements with one another through an electronic network of brokers or dealers rather than an exchange. These are not traded at a centralised marketplace or through a formalised trading system.
Passive Management Benchmark	<p>To help Suppliers and Growers evaluate the price risk associated with participating in a particular pool, the risk profile of each pool (except the QSL US Quota Pool and the QSL Shared Pool) is compared against a Passive Management Benchmark compiled by QSL, reflecting a pool with a neutral risk profile.</p> <p>The Passive Management Benchmark is based on a QSL pool manager adopting a passive (low discretion) approach to sales and pricing by following routine sales and pricing patterns, while allowing for applicable constraints, such as infrastructure, storage and the agreed Pricing Declaration Date.</p>
Physical Premium	<p>The value charged for raw sugar in a raw sugar sales contract in excess of the ICE 11 value reflecting:</p> <p>the difference in the seller's freight costs and next-best alternative source of raw sugar; plus</p> <p>any value paid for shipment flexibility; plus</p> <p>any value paid for difference in quality (excluding polarisation) of the seller's raw sugar versus the alternative raw sugar available within the same shipment period.</p>
Polarisation Premium	A price adjustment in a sales contract for raw sugar reflecting the value of polarisation for the raw sugar to be supplied above 96 degrees. The prices quoted for raw sugar traded on the ICE 11 futures market are basis 96 degrees polarisation. These prices have to be adjusted to reflect the actual polarisation of the raw sugar. In the QSL Shared Pool it may also include other payments made by a buyer of raw sugar for quality attributes of a raw sugar other than polarisation, such as colour.
Pool Specific Neutral Profile	In regard to both Committed Sugar and QSL Harvest Pool Sugar Pools, a neutral pattern of sales and/or pricing based on the parameters specified by the RSSA and upon which discretionary and MAL limits are based for the management of individual pools.
Pricing Declaration Date	The date by which Suppliers are required to declare their forecast export tonnages and which Committed Sugar Pools the Supplier wishes to participate in. The Pricing Declaration Date for a season is the last business day in February in the year harvesting commences for that season.
QSL Board	The Directors of QSL.
QSL Financial Risk Management Policy	A policy set by the QSL Board governing the management of raw sugar price and foreign currency risk that arises from the pricing alternatives offered and operated by QSL under the RSSAs.

QSL Harvest Pool	The pool operated by QSL to which the balance of each Supplier's raw sugar supplied but not allocated to other pools will be allocated, and which will be marketed in the Storage Peak Tranche and the Production Buffer Tranche in accordance with the QSL Marketing Risk Management Policy and the RSSAs. For the avoidance of doubt, the 'QSL Harvest Pool' excludes the 'Supplier-managed Harvest Pool' even though, technically, under the RSSA they both form part of a single Harvest Pool.
QSL Harvest Pool – Storage Peak Tranche	QSL Harvest Pool raw sugar which must predominantly be sold in-season in order to allow for storage constraints at the bulk sugar terminals. This component must only be sold and priced following the Pricing Declaration Date, and must be priced and sold in-season (subject to a limited right to sell some of this tranche from the prior 1 December – See QSL Harvest Pool – Production Buffer Tranche (Discretionary Component) definition below.
QSL Harvest Pool – Production Buffer Tranche	All tonnage in the QSL Harvest Pool that is surplus to that allocated to the Storage Peak Tranche.
QSL Harvest Pool – Production Buffer Tranche (Discretionary Component)	The remaining raw sugar (if any) in the QSL Harvest Pool following allocation to the Storage Peak Tranche and the Production Buffer Tranche (On-Delivery Component). This component must only be sold and priced following the Pricing Declaration Date, and can only be sold out-of-season (Subject to a limited exception which may permit some sales from the prior 1 December, provided omnibus options permitting supply by non-Queensland origin sugar as an alternative are used for sales above 65% of the then-current estimate calculated under the RSSAs for QSL-marketed pools).
QSL Harvest Pool – Production Buffer Tranche (On-Delivery Component)	QSL Harvest Pool raw sugar which must only be sold on physical delivery of raw sugar to QSL.
QSL Marketing Risk Management Policy	A policy set by the QSL Board governing the physical sale of raw sugar within a season.
RSSA	A Raw Sugar Supply Agreement between a Supplier and QSL for the bulk export of raw sugar.
Season	The period from the first day after the Pricing Declaration Date to 30 June one year forward. For example, the 2016 Season would span the period from 1 March 2016 to 30 June 2017.
Supplier	A sugar milling company obligated to provide raw sugar for sale via bulk export to QSL as a party to a RSSA.
Supplier Economic Interest Sugar	That part of the total Raw Sugar for which, pursuant to cane supply or other agreements with Growers, the Supplier or its Related Bodies Corporate have the price exposure. For the avoidance of doubt, this excludes any raw sugar for which a Grower (other than a Grower that is a Related Body Corporate of the Supplier) has the pricing exposure.
Supplier-managed Harvest Pool	A part of the Harvest Pool containing Supplier Risk Managed Harvest Pool Sugar and for which a Supplier is the pricing manager.
Supplier Risk Managed Harvest Pool Sugar	Raw sugar allocated to the Harvest Pool by a supplier which is Supplier EI Sugar and/or Grower EI Sugar for which the Growers have appointed the relevant Supplier to be the risk manager. A Supplier can only have Supplier Risk Managed Harvest Pool Sugar where it is not marketing its Supplier EI Sugar for the relevant season.
\$US	United States (US) dollars.

Queensland Sugar Limited

ABN 76 090 152 211

Level 14 348 Edward Street
Brisbane Queensland 4000

GPO Box 891 Brisbane
Queensland 4001 Australia

Telephone +61 7 3004 4400

Facsimile +61 7 3004 4499

info@qsl.com.au

www.qsl.com.au