

QSL HARVEST POOL PRICING POOL TERMS (2019 SEASON)

1 OVERVIEW

Where QSL markets Raw Sugar, the price it returns to the Participants which that Raw Sugar is attributable to is calculated in accordance with pooling arrangements, involving the sharing among Participants of costs incurred and revenues received by QSL.

The Net IPS Price to be paid by QSL to Participants for Raw Sugar allocated to a QSL Pricing Pool will consist of two elements:

- (a) the Gross Price Element (being an AUD price per Tonne IPS for an individual QSL Pricing Pool determined in accordance with the Pricing Pool Terms for that QSL Pricing Pool); and
- (b) the Shared Pool Element (being an AUD allocation of net costs or revenues per Tonne IPS applied to each Tonne IPS).

The Gross Price Element for a Participant for the QSL Harvest Pool for the 2019 Season will be determined in accordance with these QSL Harvest Pool Pricing Pool Terms.

The total payment due to a Participant in respect of a QSL Pricing Pool is the Participant's Tonnes IPS Raw Sugar allocated to the QSL Pricing Pool multiplied by the Participant's Net IPS Price for the QSL Pricing Pool.

The Tonnes IPS in a QSL Pricing Pool is the sum of, for each Participant in that QSL Pricing Pool, the Tonnes Actual allocated to the QSL Pricing Pool multiplied by the Participant's IPS Conversion Factor.

Consequently, to understand the way in which the price received for Raw Sugar delivered to QSL and allocated to the QSL Harvest Pool is calculated, it is important to read each of these QSL Harvest Pool Pricing Pool Terms, the Common Pool Terms and the Shared Pool Terms.

2 QSL HARVEST POOL

The key features of the QSL Harvest Pool are:

- (a) Pool for all unallocated tonnage – The QSL Harvest Pool is the QSL Pricing Pool to which all Raw Sugar supplied to QSL that has not been allocated to another QSL Pricing Pool is allocated. In particular:

- (i) the QSL Harvest Pool is the QSL Pricing Pool to which Raw Sugar supplied to QSL will be allocated in the absence of the Participant electing or nominating an alternative QSL Pricing Pool. In particular:

- (A) it is the 'Default Pool' for the purposes of a grower pricing arrangement or forward pricing arrangement entered between a Grower that is an OSA Participant and a Delivery Participant; and

- (B) it is an alternative to the Self-Managed Harvest Pool, such that all Participants for which QSL is marketing Raw Sugar which do not elect to participate in the Self-Managed Harvest Pool by the Self-Managed Harvest Pool Election Date or are not eligible to do so, will have Raw Sugar allocated to the QSL Harvest Pool (referred to as **Harvest Pool Participants**);

- (ii) due to the Commitment Limits limiting the volume of Raw Sugar that can be allocated to Committed Pools, all QSL Harvest Pool Participants will have at least 35% of their Raw Sugar allocated to the QSL Harvest Pool at the Pricing Declaration Date;

(b) An Uncommitted Pool – such that:

- (i) except in the event of a Production Buffer Failure (see the Shared Pool Terms for further details), there are generally no financial consequences relating to the unwinding of pricing positions or cancellation of sales for any failure by a Participant (or where the Participant is a Grower, the relevant Delivery Participant) to deliver Raw Sugar allocated to the QSL Harvest Pool (see the Common Pool Terms for further details); and

- (ii) the Commitment Limit, which limits the total amount of Raw Sugar a Participant can allocate to Committed Pools, does not limit the allocation to the QSL Harvest Pool (see the Common Pool Terms for further details);

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- (c) An ICE 11 Pool – such that the Gross Price Element is determined by reference to USD revenue derived through selling ICE 11 futures contracts;
- (d) First QSL Pricing Pool from which unsold Raw Sugar volumes are removed (or added provided Committed Sugar volumes have been met) in the event of a change in a Delivery Participant's supply estimate attributable to a QSL Harvest Pool Participant (see the Common Pool Terms for further details); and
- (e) Marketed and priced in separate tranches which are designed to manage particular risks (see QSL Harvest Pool Marketing Tranches below for further details). QSL will market the Raw Sugar allocated to the QSL Harvest Pool and Self-Managed Harvest Pools together, but the Raw Sugar allocated to such Pools will be priced independently of each other.

3 COMPARISON OF RISK PROFILE TO PASSIVE MANAGEMENT BENCHMARK

Please refer to the Grower Handbook for QSL's assessment of how the risk management strategy of the QSL Harvest Pool compares to the Passive Management Benchmark (which assumes 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).

4 GROSS PRICE ELEMENT

The Gross Price Element in the QSL Harvest Pool will be the weighted average ICE 11 futures price achieved by QSL, including the costs of any Sugar Pricing Options entered into by QSL to manage pricing risk in respect of the QSL Harvest Pool, applied to the total Tonnes Actual allocated to the QSL Harvest Pool.

This USD revenue stream will be converted to AUD under the pricing policy applied by QSL.

The resulting AUD revenue stream will be divided by the total tonnage allocated to the Pricing Pool in Tonnes IPS to arrive at the AUD per Tonnes IPS Gross Price for the Harvest Pool.

$$\text{Gross Price Element} = \frac{\text{AUD Gross Revenue for the Harvest Pool}}{\text{Total Tonnes IPS allocated to the Harvest Pool}}$$

where:

AUD Gross Revenue means the USD Gross Revenue for the QSL Harvest Pool converted to AUD in accordance with QSL's board approved policies; and

USD Gross Revenue means the weighted average ICE 11 futures price achieved by QSL under its board approved policies for the QSL Harvest Pool applied to the total Tonnes Actual allocated to the Harvest Pool.

5 QSL HARVEST POOL MARKETING TRANCHES

5.1 QSL HARVEST POOL TO BE MARKETED IN TWO TRANCHES

The QSL Harvest Pool will be marketed (physically sold to customers) by QSL in two tranches, being the Discretionary Tranche and the Production Buffer Tranche.

The two marketing tranches are designed to ensure that QSL will:

- (a) through the Discretionary Tranche, price and market a quantity of the Harvest Pool earlier in the Season:
 - (i) to ensure there is sufficient storage capacity at the bulk sugar terminals to store Raw Sugar required for out-of-crushing-season shipments; and
 - (ii) to assist QSL to receive the best price for Raw Sugar, for the balance of the QSL Harvest Pool not allocated to the Production Buffer Tranche; and
- (b) through the Production Buffer Tranche, to only price and market the remainder of the QSL Harvest Pool once the physical deliveries to QSL reach the threshold described in clause 6.4 below, so as to mitigate the financial risks borne by all Participants due to potential reductions in production levels from those initially estimated by each Delivery Participant at the Pricing Declaration Date.

The marketing tranches are used for the purposes of QSL's Marketing Plan. Individual QSL Harvest Pool Participants have an allocation to the QSL Harvest Pool, not a specific allocation within each marketing tranche.

5.2 INITIAL ALLOCATION TO PRODUCTION BUFFER TRANCHE

The Production Buffer Tranche will initially be allocated 20% of the aggregate for each QSL Harvest Pool Participant of their Initial SPE (less, for RSSA Participants, that part of their SEI Sugar nominated to be allocated to their Supplier EI Pool).

5.3 INITIAL ALLOCATION TO DISCRETIONARY TRANCHE

The total tonnage of Raw Sugar initially allocated to the Discretionary Tranche will be calculated as all Raw Sugar allocated to the QSL Harvest Pool that is not allocated to the Production Buffer Tranche.

5.4 MARKETING OF QSL HARVEST POOL AND SELF-MANAGED HARVEST POOL

QSL will market:

- (a) the Discretionary Tranche of the QSL Harvest Pool in conjunction with the Discretionary Tranche for each Self-Managed Harvest Pool; and
- (b) the Production Buffer Tranche of the QSL Harvest Pool in conjunction with the Production Buffer Tranche for each Self-Managed Harvest Pool.

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6 HARVEST POOL MARKETING AND PRICING

6.1 QSL IS THE QSL HARVEST POOL RISK MANAGER

- (a) QSL is the Risk Manager for all of a Participant's Raw Sugar allocated to the QSL Harvest Pool for a Season.
- (b) QSL will undertake pricing activities in accordance with clauses 6.3(a) and 6.4(a) and QSL's board approved policies.

6.2 MARKETING MECHANISMS

To assist in managing the volume risk arising from the QSL Harvest Pool being an Uncommitted Pool, the marketing of the Raw Sugar allocated to the QSL Harvest Pool occurs through a combination of:

- (a) Standard physical sales Contracts for sale of Queensland Raw Sugar;
- (b) **Omnibus Origin Options**, being a Raw Sugar sales Contract under which Raw Sugar from one or more alternative countries of origin may be used to meet any or all supply obligations under that contract which QSL had intended to meet with Queensland Raw Sugar;
- (c) **Volume Options**, being an agreement under which QSL gains the right to sell Raw Sugar to a Customer at a set CFR Premium, but is under no obligation to do so; and
- (d) **Put Options**, being a put option or equivalent transaction under which QSL (as the purchaser of the option) gains the right to sell ICE 11 contracts at a set price on or before an agreed date, but is under no obligation to do so.

6.3 DISCRETIONARY TRANCHE

(a) Pricing

QSL may undertake pricing by entering into ICE 11 futures contracts, Put Options or QSL board approved OTC instruments for Raw Sugar allocated to the Discretionary Tranche in accordance with QSL's board approved policies on and from 1 October 2018.

To the extent pricing of the Discretionary Tranche is occurring, foreign currency hedging will be undertaken by QSL in accordance with QSL's board approved policies.

(b) Marketing

Physical sales to customers (marketing) of Raw Sugar allocated to the Discretionary Tranche may also commence from 1 October 2018.

For any physical sales to customers made prior to the Pricing Declaration Date, the sale must include Omnibus Origin Options in accordance with QSL's board approved policies.

6.4 PRODUCTION BUFFER TRANCHE

(a) Pricing

QSL may undertake pricing by entering into ICE 11 futures contracts or QSL board approved OTC instruments for Raw Sugar allocated to the Production Buffer Tranche on and from the date on which 70% of the estimated Raw Sugar volume to be supplied to QSL for the 2019 Season has been physically delivered (i.e. total deliveries to QSL exceed the aggregate Committed Sugar obligations of all QSL Harvest Pool Participants which, due to Commitment Limits, are capped at 65% of the estimated Raw Sugar volume to be supplied to QSL by QSL Harvest Pool Participants, or for QSL Harvest Pool Participants that are Growers, the relevant Delivery Participants in respect of the QSL Harvest Pool Participant).

From the Pricing Declaration Date and prior to physical delivery QSL may also enter Put Options for price protection in respect of Raw Sugar allocated to the Production Buffer Tranche, provided that the Put Options are not exercised by QSL until a corresponding volume of Raw Sugar allocated to the Production Buffer Tranche has been physically delivered.

To the extent pricing of the Production Buffer Tranche is occurring, foreign currency hedging will be undertaken by QSL in accordance with QSL's board approved policies.

(b) Marketing

Physical sales to customers (marketing) of Raw Sugar allocated to the Production Buffer Tranche may commence from Pricing Declaration Date.

For any physical sales to customers made prior to a corresponding volume of Raw Sugar allocated to the Production Buffer Tranche having been physically delivered, the sale must include Omnibus Origin Options in accordance with QSL's board approved policies. Sales of this nature in this period must not exceed 50% of the aggregate tonnage allocation to the Production Buffer Tranche for the QSL Harvest Pool and each Self-Managed Harvest Pool.

QSL may also enter Volume Options in respect of Raw Sugar allocated to the Production Buffer Tranche prior to a corresponding volume of Raw Sugar allocated to the Production Buffer Tranche having been physically delivered, provided that the Volume Options are not exercised by QSL until a corresponding volume of Raw Sugar allocated to the Production Buffer Tranche has been physically delivered.

7 REDUCTIONS IN THE QSL HARVEST POOL

7.1 PRIORITY FOR ALLOCATING REDUCTIONS IN THE HARVEST POOL

If the aggregate of the supply estimates provided by all Delivery Participants (in respect of QSL Harvest Pool Participants) declines from the aggregate supply estimates provided by Delivery Participants (in respect of QSL Harvest Pool Participants) on the Pricing Declaration Date, the tonnage to be allocated to the Discretionary Tranche will, to the extent it has not already been sold or priced, be reduced.

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Raw Sugar that is subject to:

- (a) Volume Options and Put Options which have not been exercised will not be considered sold or priced for these purposes; and
- (b) Omnibus Origin Options will be considered sold for these purposes irrespective of whether it has yet been delivered.

If the aggregate supply estimates of all Delivery Participants (in respect of QSL Harvest Pool Participants) declines sufficiently, it is possible that the Discretionary Tranche will comprise no Raw Sugar other than those quantities which have already been sold and or priced. If the decline is in excess of any remaining unsold sugar in the Discretionary Tranche the excess will then reduce the Production Buffer Tranche.

If the allocation in the Production Buffer Tranche should become negative by virtue of such a reduction, Delivery Participants will have delivered an insufficient amount of Raw Sugar to meet any sales and/or pricing completed by QSL in the Discretionary Tranche and/or failed to supply Committed Sugar (a **Production Buffer Failure** for the purposes of the Pool Terms).

7.2 COSTS OF A PRODUCTION BUFFER FAILURE

Each Participant will be responsible for the Costs of its own failure to supply Committed Sugar or, where a Participant is a Grower, the relevant Delivery Participant's failure to deliver Committed Sugar attributable to that Participant (see the Common Pool Terms for further details).

Any remaining shortfall will then be resolved in accordance with these QSL Harvest Pool Pricing Pool Terms in respect of QSL Harvest Pool Participants and the Self-Managed Harvest Pool Pricing Pool Terms in respect of Self-Managed Harvest Pool Participants.

Where there are remaining futures positions in excess of the unsold Raw Sugar in the Production Buffer Tranche in respect of QSL Harvest Pool Participants, QSL's board of directors will determine whether:

- (a) the futures gain or loss incurred in returning the Production Buffer Tranche to zero (after individual Participants have borne the financial impact of any failure to deliver Committed Sugar or where a Participant is a Grower, the relevant Delivery Participant's failure to deliver Committed Sugar attributable to that Participant) will be distributed to all QSL Harvest Pool Participants in the 2019 Season via the Futures Premium section of the Shared Pool (in accordance with clause 7.3 of these QSL Harvest Pool Pricing Pool Terms below); or
- (b) the surplus futures positions will be 'rolled-forward' to the 2020 Season by closing out the surplus ICE 11 futures positions for the 2019 Season and acquiring an equivalent volume of ICE 11 futures positions in the 2020 Season, with the futures gain or loss incurred in returning the Production Buffer Tranche to zero in that manner (after individual Participants have borne the financial impact of

any failure to deliver Committed Sugar or where a Participant is a Grower, the relevant Delivery Participant's failure to deliver Committed Sugar attributable to that Participant) being distributed to all QSL Harvest Pool Participants in the 2020 Season through the 2020 QSL Harvest Pool.

QSL will not determine to 'roll-forward' surplus futures positions unless it has the prior approval of a majority of RSSA Participants who have an economic interest in the QSL Harvest Pool (either by not having Raw Sugar allocated to a Supplier EI Pool or due to the manner in which pricing outcomes are shared between a RSSA Participant and its Growers under the relevant cane supply and/or pricing arrangements).

7.3 FUTURES GAIN OR LOSS FOR A PRODUCTION BUFFER FAILURE

Where QSL's board of directors determines the futures gain or loss incurred in returning the QSL Harvest Pool Production Buffer Tranche to zero (after individual Participants have borne the financial impact of any failure to deliver, or have the Delivery Participant deliver, Committed Sugar, including a failure to deliver Raw Sugar which has been priced in the Self-Managed Harvest Pool) will be distributed to all QSL Harvest Pool Participants in the 2019 Season via the Futures Premium section of the Shared Pool (see the Shared Pool Terms for detail) the futures gain or loss against a futures position for a Production Buffer Failure will be determined as follows:

$$\text{Gain (loss)} = (\text{AVSP} - \text{BFP}) \times \text{LPBF} \times 1120$$

where:

AVSP is the weighted average short futures price achieved by Discretionary Tranche of the QSL Harvest Pool in US cents per pound.

BFP is the weighted average long futures price of the ICE 11 futures contracts bought by QSL in US cents per pound.

LPBF is the number of ICE 11 futures contracts bought by QSL to close out short positions for all ICE 11 Pricing Pools against the relevant futures position.

Any gain or loss incurred in meeting obligations under Omnibus Origin Options by supply of Third Party Origin Sugar will be distributed by the CFR Premiums section of the Shared Pool (see the Shared Pool Terms for more details).

8 QSL COMMON POOL TERMS

The QSL Common Pool Terms are a set of terms that apply to all QSL Pricing Pool Terms.

They form part of the terms of participating in the QSL Harvest Pool as if they were set out in full in these QSL Harvest Pool Pricing Pool Terms.

9 GLOSSARY

Capitalised terms used in these QSL Harvest Pool Pricing Pool Terms have the meaning set out in the Pool Terms Glossary.

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10 WHO TO CONTACT?

If you have any queries in relation to these QSL Harvest Pool Pricing Pool Terms, please do not hesitate to contact the QSL Finance Team by email info@qsl.com.au or phone on (07) 3004 4400.

Disclaimer: As described in this Pricing Pool Terms document (the **Terms**), you should not make a decision based on these Terms unless you have read and understood the other Pricing Pool Term documents referred to in the Terms. These Terms do not constitute financial, investment or product advice, a risk management strategy, or a recommendation to allocate Raw Sugar to any Pricing Pool described in the Terms. You should therefore seek your own financial advice before making any decisions in relation to the Pricing Pools.

FURTHER INFORMATION

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