

QSL AGM
21 October 2013
Chairman's Address by Mike Carroll

We remain focused on creating value for our members. One of the most important aspects of this is the "net" performance of the raw sugar pools.

In 2012/2013 the net pool returns were down on the previous year: \$431.15 per tonne IPS (total QSL managed ICE 11 pools average) versus the record return of \$519.25 per tonne IPS (total QSL managed ICE 11 pools average) in 2011/2012. The drop in returns reflects the fall in international sugar markets and the ICE11 contract. The out-performance of the Passive Management Benchmark is largely due to the QSL pricing team forming the view that the market would continue to decline through the season so we priced as much as possible as early as possible. Our Treasurer, Stephen Stone, provides further commentary on the factors that influenced the market in the 2012/13 QSL Annual Report. While disappointing the result was ahead of our Passive Management benchmark of \$411.59 dollars per tonne IPS.

Other important contributions to net returns included:

- The premium on physical sales, which is a reflection of our reputation for quality and on-time and in-full delivery and long-standing customer relationships,
- Efficient terminal operation without compromising the safety of our employees, and
- Overall sound cost management.

In this year's QSL Annual Report we included a more comprehensive analysis of QSL's performance over the last 12 months and included historic data so that our members can put the year just gone into context and appreciate our underlying performance trends.

So while we are pleased with QSL's 2012/13 performance in a declining market, it was a year with significant distractions.

Our diverse membership base has some distinct interests:

- Wilmar, our largest milling member wants access to physical Australian sugar to complement its trading activity in what is becoming one of the largest international sugar players and proposed a Grower Choice model.
- Growers, our members with the most capital invested in the industry want greater control over how their sugar is marketed so they can ensure industry value (the size of the pie) is not diminished and that their share of the value (share of the pie) is protected.
- Our other milling members have different wants, but common to all of them is access to the economies of scale that pooling Australia's raw sugar provides in logistics, quality management, funding and managing price risk.

While the RSSA provides some certainty for the next three years, the sense that some members are reluctant parties to this arrangement undermines confidence in QSL's longer term future. For QSL it

is important that we find a more stable arrangement. The current uncertainty is a significant distraction from the things we should be focusing on, making it challenging to retain and attract good people and leading to short-term thinking around developing our systems and capabilities in general.

Our assessment of the latest version of the Wilmar proposal was with some modification it could work and preserve most of the value that QSL provides the industry. A version of the Wilmar proposal would keep Australia's sugar together so that QSL could continue offering:

- The ICE11 price risk management pools,
- The advances program, and
- Logistics and quality management all - exactly as we do today.

The only point of contention is whether multiple sellers of Australian sugar competing with QSL will result in a lower physical sales premium and whether the premium they have offered offsets this adequately and equitably for all other participants in the industry.

We have empathy with growers' concerns that before the ink is dry on Option B there is another proposal and the uncertainty that this creates about where this seemingly ongoing change will end.

The Green Pool Report, like the PSP Report, has a number of points we could all debate. However they are largely points to which there is no definitive answer, so this wouldn't be helpful. When we first saw the report's key recommendation we thought it was rather radical, however the industry is unique.

The essence of the report's recommendations is seeking to put growers in a position where they can control who markets their interest; their share of raw sugar and ultimately the headline figure in their own profit and loss.

We don't see this concept as being mutually exclusive to Wilmar and MSF's desire to compete with QSL in offering growers a physical marketing choice. We'd like to think there is a win-win outcome. So we encourage our members to keep talking and explore how your different interests can be accommodated.

There is a lot at stake here. Let us keep a focus on our common objectives as we do have a lot of common ground:

1. Three of QSL's activities are not in contention so we should endeavour not to jeopardise the value this creates for the industry and
2. We should endeavour to find an outcome that is more stable and that engenders confidence across the supply chain.

It is only with confidence that there will be more investment in the industry, and only with investment will we see increased production, productivity and international competitiveness. These are the things that matter.

We are clearly of the view that the worst outcome for the industry would be the total collapse of our current collaborative arrangements. The Board of QSL strongly encourages the industry to find an arrangement that optimises long-term value in an equitable form for all of our members, and bring these negotiations to a landing. Ultimately QSL's future is in our members' hands.

Moving on to other matters, there have been quite a few people changes at QSL that we'd like to acknowledge.

Early in the year Nicole Birrell chose not to seek reappointment as a director of QSL and the Board Selection Committee appointed Sarah Scales. I would like to acknowledge the contribution made by Nicole, one of the four original independent Board members, and welcome Sarah. Sarah brings experience and expertise in soft commodity pricing and pool management, international marketing and risk management.

With the departure of our Chief Financial Officer (CFO) Matthew Wedmaier in April this year we welcomed Robert Hines' appointment. Rob brings depth of experience having been CFO at a number of leading Queensland companies. We are impressed with how quickly Rob has got his mind around the business and the contribution he is making to the leadership team.

Brent Casey, General Manager Marketing and Sales also decided to leave QSL. Both Matt and Brent made very significant contributions to the business and we'd like to sincerely acknowledge and thank them for that. We also thank Maggie Pascoe, QSL's Company Secretary and Legal Counsel who will be finishing with QSL this week.

With concern for the loss of experienced executives we have elevated five employees who will join the existing Leadership Team. They include:

- Manager Quality and Logistics, Andrew Harrison,
- Terminal Manager, Mackay and Bundaberg, Mike Panke,
- Finance and Accounting Manager, Aaron Searle,
- Treasurer, Stephen Stone, and
- Finance Manager, Supplier Relations, Bryce Wenham.

The Board believes the Leadership Team, which has the very important responsibility of leading the formation and implementation of QSL's strategy and business plans, has the appropriate mix of industry experience, corporate knowledge and diversity to effectively continue the legacy of commitment and dedication to delivering value for QSL's members.

Another area of QSL's activity that the Board believes requires refinement is the funding of various industry initiatives. In the past QSL has funded quite a diverse range of activities, some with varying levels of member support. As funding these activities ultimately impacts pool performance the Board would like to narrow the scope of this activity to "industry good" initiatives that directly impact the international marketing and demand for Australian raw sugar. We encourage the industry to create a mechanism that can raise levies, has the expertise to evaluate proposals and a

governance framework to oversee investment in initiatives that are not directly related to the international marketing of raw sugar.

As always we look forward to continuing a high level of engagement with our members and welcome your input.