ASSESSING THE FUTURE OF THE AUSTRALIAN SUGAR INDUSTRY

PETER BREGUET, MARKETING MANAGER, QSL

22 SEPTEMBER 2011
TODAY’S PRESENTATION

• The structure of the Australian sugar industry today
• A brief overview of QSL and what we do
• Structural analysis of the sugar industry and market
  – Coming season’s production outlook
  – Looking forward to the future and Australia’s potential
The Australian sugar industry today
Sugar’s place in Australian agribusiness

- Sugar is one of Australia’s most valuable agricultural exports
- 80 per cent of total crop exported each year
- In a typical year:
  - 32-35 million mt of cane produced
  - 4.1 – 4.4 million mt of raw sugar
  - 2.9 - 3.1 million mt of raw sugar for export
  - 4,000 cane farms, 24 mills, 6 bulk storage terminals
  - $1.5 – 2.5 billion value in exports
- Most raw sugar exported to Asia
- Innovative, tech-driven growing – good yields per hectare
The Australian sugar industry is changing

- Significant period of growth and consolidation in milling sector
- Increased offshore investment in sector:
  - Investors concerned about food security, consistency of supply, quality
- Presents opportunities for Australian production to grow via increased capital spending and R&D improvements

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>19 companies, 33 mills</td>
</tr>
<tr>
<td>1997</td>
<td>12 companies, 29 mills</td>
</tr>
<tr>
<td>2010</td>
<td>Mitr Phol takes 19% of Maryborough Sugar</td>
</tr>
<tr>
<td>2010</td>
<td>Wilmar acquires Sucrogen</td>
</tr>
<tr>
<td>2011</td>
<td>COFCO acquires Tully Sugar and bids for Proserpine</td>
</tr>
<tr>
<td>2011</td>
<td>8 companies, 21 mills</td>
</tr>
<tr>
<td>2012 and beyond?</td>
<td></td>
</tr>
</tbody>
</table>
QSL’s role in Australian sugar
QSL is a global leader in raw sugar marketing

- Manage over 90% of all Australian raw sugar exports
- Will continue to market this volume until at least 2015
- Lease and operate 6 bulk sugar terminals
- Unique model of full supply chain control
- We employ 160 people across Queensland
- Provide platform for Australian growers and millers to participate in forward pricing up to 5 years in advance
- Owned by Australia’s growers and millers
- Non-profit corporate structure
- Governed by independent Board of Directors
We add value to our Australian raw sugar for customers

- Experts in Australian raw sugar quality
  - Work with clients to deliver sugar to spec for different refining needs
  - Quality technicians travel to customers
  - Access to more than 90% of all Australian raws helps us to manage any issues

- Full control of the export supply chain
  - We operate our own port terminals – reduces queues and delays
  - 2010/11 delivered 94.4% of all exports in full, on time
  - Efficient, sophisticated shipping and logistics systems
Australian sugar industry
Outlook at a glance

• Australia has experienced an extraordinary 2010 season with floods and wet weather
• Impacts of this will continue to be felt in the short term
• Australia has potential for growth
• Australian raw sugar is in high demand
• Corporate investment and industry consolidation should support production growth over medium-long term
Current production will be down

- 2010 season highly unusual - floods and cyclones
- Plantings up but total production forecast to increase by just 0.2 mt to 3.85 mt in 2011/12

Source: ABARE
Is there growth potential for Australian sugar?

• The short answer is yes – global demand and production will continue to grow
• Demand is currently outstripping supply
• Global demand is growing at about 2% pa bolstered by
  – growing Asian population
  – affluence
  – changing food habits – increasing demand from food processing sector
  – demand for ethanol
• Supply has been erratic and relied on annual growth in production by Brazil which has now slowed.
Global Consumption vs. Growth

Source: FO Licht, 2011
Demand for our raw sugar remains very high

- We are experiencing strong demand for Australian sugar
- QSL has developed flexible solutions to meet demand in short term:
  - Supplementing Australian supply with raws from other origins to meet high demand
  - Has provided continuity and flexibility
  - We take all steps to ensure other origin sugar meets high quality standards and will suit customer needs
- We are also working with industry to grow production and volumes to meet future demand
Sugar demand projections for Asia

Source: FAO, FO Licht, Rabobank

### Sugar consumption (2001 – 2020 projection)

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>Rest of Asia</th>
<th>China</th>
<th>Indonesia</th>
<th>Pakistan</th>
<th>Thailand</th>
<th>Rest of Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CAGR (2001-2010)**
- India: 3.59%
- China: 5.89%
- Indonesia: 4.27%
- Pakistan: 2.55%
- Thailand: 3.24%
- Rest of Asia: 2.05%

---

**Sugar consumption – Asia’s position in 2020**

- **2010**
  - Total Global Consumption: 165 million tonnes**
  - Rest of World: 57%
  - Asia: 43%

- **2020**
  - Total Global Consumption: 199 million tonnes
  - Rest of World: 53%
  - Asia: 47%

*Source: FAO, FO Licht, Rabobank*
Australia well positioned

Source: Czarnikow / QSL
Continued volatility

- Market characterised by price volatility and crop uncertainty around the world
  - Previous demand growth met by Brazil
  - Crop issues and structural changes are impacting CS Brazil crop
  - Increased speculation activity in agricultural commodity markets means volatility will stay

Source: LMC International, Sep 2011
Factors supporting long-term growth

- Refinery buyers are seeking consistent quality of supply
- Food security is a key issue for consumers and this is impacting base line prices across a spectrum of Agricultural commodity markets.
- **Australia offers key strengths in this context:**
  - Stable macroeconomic environment
  - Robust quality controls
  - Good business reputation and export-orientation
  - Proximity to key markets
  - Quality product and ability to handle volatility
QSL model enables growers to capture value now and into the future

- QSL offers range of forward pricing mechanisms and Pool products
- Growers are capturing value for crop despite lower volumes
- QSL’s ability to deliver low cost services and finances encourages investment
Corporate investment also supporting growth

• Price incentives are encouraging for Australian growers:
  – Expanding production to new land, recovering land that was converted to timber/nuts in early 2000s
  – Improvements in yield being achieved via varietal R&D, farm practices, advanced milling technology, high sugar content
    • Cane yield per ha best in world
      – Aust 2010 - 88.3 t/Ha
      – Brazil 2010/11 - 75 t/Ha
      – Thailand 2009/10 - 66 t/Ha

• Corporate investment supporting R&D, technical advances over long term as well
Raw sugar prices are sustaining higher levels

World raw and white sugar futures prices

Source: LMC International, Sep 2011
QSL well placed to deliver future growth to world

- Superior logistics and quality services are foundation of strong, long-term customer relationships
- Collective approach to marketing in Australia enables integrated cross-industry approach and scale
- Modern infrastructure supports efficient supply chain management
Conclusion

• Australian sugar industry produces a high quality, high demand product
• Australia’s system offers unique advantages on the world stage
• Growers are well placed to take advantage of positive price indicators
• Supported by growth in corporate investment
• Industry is focused on working together to grow production to meet strong global demand
Thank you