QSL pool choices
2015 season
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Note: The figures in this document have been rounded.
Creating prosperity for you by maximising the pool price
Agenda

• 2014 season estimated pool returns

• Changes to QSL’s offerings

• QSL’s 2015 season pooling options

• Considerations for pricing your sugar

• Where do I go for further information?

• Questions
1. 2014 season estimated pool returns **

As at 23 January 2014

<table>
<thead>
<tr>
<th>Pool</th>
<th>Gross $A per mt IPS</th>
<th>Shared Pool Allocation</th>
<th>Net $A per mt IPS</th>
<th>Percentage Priced</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSL Harvest Pool</td>
<td>$412</td>
<td>($4)</td>
<td>$408</td>
<td>71%</td>
</tr>
<tr>
<td>QSL Discretionary Pool</td>
<td>$438</td>
<td>($4)</td>
<td>$434</td>
<td>94%</td>
</tr>
<tr>
<td>QSL Actively Managed Pool</td>
<td>$442</td>
<td>($4)</td>
<td>$438</td>
<td>93%</td>
</tr>
<tr>
<td>QSL Guaranteed Floor Pool</td>
<td>$428</td>
<td>($4)</td>
<td>$424</td>
<td>100%</td>
</tr>
<tr>
<td>QSL Growth Pool</td>
<td>$441</td>
<td>($4)</td>
<td>$437</td>
<td>93%</td>
</tr>
<tr>
<td>QSL Forward Season Pool</td>
<td>$420</td>
<td>($4)</td>
<td>$416</td>
<td>92%</td>
</tr>
<tr>
<td>QSL US Quota Pool</td>
<td>$609</td>
<td>($100)</td>
<td>$509</td>
<td>95%</td>
</tr>
</tbody>
</table>

** Prices have been rounded and are an estimate only until pricing for the season is completed. Past performance is provided for reference only and may not be indicative of future performance.
2. Changes to QSL’s pool offerings

2014 season provided 7 offerings in total

**Committed pools**

1. QSL Guaranteed Floor pool
   - No discretion - pricing rules are fixed

2. QSL Discretionary pool +/− 20%
   - Similar structure with differing discretion

3. QSL Actively Managed pool +/− 30%

4. QSL Growth pool +/− 50%

5. QSL 2-Season Forward pool +/− 30%
   - Similar structure priced over 2 or 3 seasons

6. QSL 3-Season Forward pool +/− 30%

**Uncommitted pool**

7. Harvest Pool +/− 20%
   - No tonnage commitment other than 35% initial allocation
3. QSL’s 2015 and future season ICE 11 pooling options

Simpler offering: 7 down to 4 pools with clearer functional offerings

**Committed pools**

**2014 season**

- QSL Guaranteed Floor Pool
- QSL Discretionary Pool +/− 20%
- QSL Actively Managed Pool +/− 30%
- QSL Growth Pool +/− 50%
- QSL 2-Season Forward Pool +/− 30%
- QSL 3-Season Forward +/− 30%

**Uncommitted pool**

- QSL Harvest Pool +/− 20%

**2015 season**

- QSL Guaranteed Floor Pool
  - Guaranteed minimum price for the current season with potential for upside
- QSL Actively Managed Pool +/− 30%
  - Pro-active pricing for the current season
- QSL 2-Season Forward Pool +/− 30%
  - Pro-active price management for the next season
- QSL Harvest Pool +/− 20%
  - A discretionary pool for the current season designed to manage a limited amount of production variation
How much tonnage can be put into each pool?

**COMMITTED POOLS**

- No changes in commitment limits from 2014 season

**HARVEST POOL**

- Minimum required 35% tonnage
  - Default pool for most growers
  - Generally no penalty for not delivering**

**Optional tonnage (up to 60%)**

- In-season committed pools
- Future season committed pool
- Fixed supply obligation

**In-season pools:**
- QSL Guaranteed Floor
- QSL Actively Managed

**Future season pool:**
- QSL 2-Season Forward Pool for 2016 Season

**US Quota (0-5%)**
- Compulsory

**Subject to production buffer failure**
## Snapshot of QSL ICE 11 pool characteristics

<table>
<thead>
<tr>
<th>QSL Guaranteed Floor Pool</th>
<th>QSL Actively Managed Pool</th>
<th>QSL 2-Season Forward Pool</th>
<th>QSL Harvest Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committed</td>
<td>Committed</td>
<td>Committed</td>
<td>Uncommitted</td>
</tr>
<tr>
<td>Provides a guaranteed minimum return with the potential for higher returns</td>
<td>*Targets the best return over the season by pricing more frequently as short-term market opportunities arise</td>
<td>*Priced over 2 seasons that targets the best return, with some pre-set triggers</td>
<td>*Designed to manage a limited amount of production variation</td>
</tr>
<tr>
<td>Current season</td>
<td>Current season</td>
<td>Next Season</td>
<td>Current season</td>
</tr>
<tr>
<td>No discretion</td>
<td>+/-30% discretion</td>
<td>+/-30% discretion</td>
<td>+/-20% discretion</td>
</tr>
<tr>
<td>Individual production risk</td>
<td>Individual production risk</td>
<td>Individual production risk</td>
<td>Only paid for what is delivered</td>
</tr>
<tr>
<td><strong>Collective risk</strong></td>
<td><strong>Collective risk</strong></td>
<td><strong>Collective risk</strong></td>
<td><strong>Collective risk</strong></td>
</tr>
<tr>
<td>Low price risk</td>
<td>***High price risk</td>
<td>***High price risk</td>
<td>***High price risk</td>
</tr>
</tbody>
</table>

**Price risk**

* QSL cannot guarantee the price performance of these pools
** Collective risk is the costs incurred when the Production Buffer fails
*** High price risk means potentially **lower or higher** returns
QSL pool price components

Committed sugar (maximum 65%)

- Non-ICE 11 pools
  - QSL US Quota Pool
  - Long Term Contract (LTC) Pool

Commitment ICE 11 pools

- Supplier managed
- QSL managed
- Refer to mill offerings (includes forward pricing)
- QSL Guaranteed Floor Pool
- QSL Actively Managed Pool
- QSL 2–Season Forward Pool

Un-committed sugar (minimum 35%)

- Harvest Pool (ICE 11)
  - QSL Harvest Pool
  - Supplier managed Harvest Pool

Shared Pool Element

Pool net price
Shared Pool element

No changes from 2014 season

**QSL pools**
(including Mill Forward Pricing options)

**QSL Shared Pool**

- Premiums earned by QSL’s marketing efforts
- Third party origin earnings
- Marketing costs
- RSSA operating costs
  - Storage and handling (costs of bulk sugar terminals)
  - QSL shared services costs
  - Quality scheme costs
  - Financing costs
- QSL Harvest Pool production buffer failure costs
Which pool has more or less risk?

**QSL pool objectives:**

- Exceed the market average price over the life of the pool
- Each pool has different mechanisms available in order to meet this objective
- Risk is measured relative to the likelihood that the pool’s final price is more or less than the average price of the market during the life of the pool

**Passive Management Benchmark:**

- Assumes pricing occurs evenly from Pricing Declaration Date (27 February 2015) over the life of the pool and should achieve the average price of the market
Pool Manager Discretion and Passive Management Benchmark

Derivative instruments may be used, including futures contracts and commodity swaps, and ability to actively buy and sell positions.

- Pricing according to benchmark using no discretion means that the pool should achieve the average price of the market during its life.
- A pool manager may delay pricing where he or she has the view that prices may be better later on, or increase pricing if they believe prices will go down in the future.
In-season pools

Pools that price the current season’s production
2015 season pool
QSL Guaranteed Floor Pool

POOL OBJECTIVE

A Committed sugar pool that provides a guaranteed minimum return with potential for higher returns

- QSL has the ability to set a known minimum price at pricing declaration date (27 Feb 2015) and provides scope for limited participation in upwards market movements across full season
- Removes risk of downward market moves post 27 Feb 2015
- No discretion to deviate from the benchmark

Floor price with participation in 50% of market if it moves above the floor price
How to interpret price indication on QSL’s website

<table>
<thead>
<tr>
<th></th>
<th>Current market price</th>
<th>Strike price</th>
<th>Absolute floor</th>
<th>Participation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A$453 AUD/mt*</td>
<td>A$ 452 AUD/mt*</td>
<td>A$ 442 AUD/mt</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>A$437 AUD/mt IPS</td>
<td>A$ 436 AUD/mt IPS</td>
<td>A$ 426 AUD/mt IPS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Current market price**
  - current market value of sugar if you outright forward price today

- **Strike price**
  - the market level at which you begin to participate in price rises

- **Absolute floor**
  - minimum price the pool will achieve including the cost of insurance paid to secure the floor

- **Participation rate**
  - the amount of participation in price rises above the strike price
  - 50% participation means for every dollar ($1) the market trades above the strike price the pool participates 50 cents of the price rise

*as at 4 February 2015*
### POOL OBJECTIVE

A Committed Sugar Pool that targets the best return over the season by pricing more frequently as short-term market opportunities arise

- Current season pricing only
- Tonnage commitment provides wider discretion than the Harvest and Guaranteed Floor pools
- Tonnage commitment gives QSL ability to:
  - Lead or lag the level pricing by +/-30% from the Benchmark Profile
  - Ability to buy back pricing and price again within limits (active trading)
  - Even exposure across the marketing year (1:2:2:1) ratio
2015 season pool
QSL Harvest Pool

<table>
<thead>
<tr>
<th>POOL OBJECTIVE</th>
<th>An uncommitted pool designed to manage a limited amount of production variation</th>
</tr>
</thead>
</table>

- Balance of tonnage not allocated to Committed Sugar Pools is priced in this pool
- Absorbs change in supply estimates after pricing declaration date
- Minimum allocation of 35% of estimated supply required at pricing declaration date (27 Feb 2015)
- Default pool for most growers
- Other than Production Buffer Failure Costs, generally no cost for not delivering original allocation

**Changes for 2015 season**
- Rules for allocating tonnage to the Production Buffer and Storage Peak **unchanged**
- Rules for allocating Production Buffer Costs unchanged
- Put options may be used to protect the value of the buffer prior to physical delivery (Put options provide QSL the right to price a certain levels, but not the obligation)
- Pricing for Storage Peak may start prior to Pricing Declaration Date for season but no earlier than 1 December (3 months prior to current Pricing Declaration Date)
2015 season pool
QSL Harvest Pool

Until December you received payments based on the weighted average payment that your mill received (for all of its pools).

From December onwards your payments are aligned to your choice (Harvest Pool) which is predominantly priced at the back end of the season.

Harvest has limited pricing it can do within the season

Production buffer of Harvest Pool priced back end of season

Pricing Declaration
Known tonnage for committed pools

Approx. 50% priced

All other pools priced throughout year based on known tonnage.
Forward season pools

Pools that price over multiple seasons
2016 season pool
QSL 2016 2-Season Forward Pool

**POOL OBJECTIVE**

QSL aims to maximise returns in this pool for the 2016 season by timing pricing decisions over the next 2 seasons to align with more favourable market conditions with some pre-determined triggers

- Tonnage nominated 12 months prior to actual declaration date
- Active price management for the 2016 season
- Even exposure across the marketing year
- Tonnage commitment gives QSL ability to:
  - Price progressively during the 2015 and 2016 seasons for sugar delivered in 2016 season
  - Ability to lead or lag benchmark by +/-30%
  - Minimum of 28% of pool priced in the preceding season (2015)
  - Additional may be priced at QSL’s discretion, or should the market reach pre-determined triggers
  - Ability to buy back pricing and price again within limits (active trading)

<table>
<thead>
<tr>
<th>Triggers</th>
<th>Tonnage priced by the benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>A$450</td>
<td>25% of the pool (if available)</td>
</tr>
<tr>
<td>A$475</td>
<td>25% of the pool (if available)</td>
</tr>
<tr>
<td>A$500</td>
<td>25% of the Pool (if available)</td>
</tr>
</tbody>
</table>
A pool manager may delay where they have the view that prices may be better later on and vice versa.
A pool manager may delay where he or she has the view that prices may be better later on and vice versa.
How will my choices affect my Advance Payments?

• Committed pools’ tonnages are known by March (straight after the Declaration Date)

• The Harvest Pool tonnage varies until the end of the harvest
  – In-season crop fluctuations
  – Contains the production buffer which is priced only after it is received at the terminals

• This means for the Harvest Pool:
  – There is more late pricing than other pools and more exposure to world sugar prices at the back end of the season
  – More exposure to pricing fluctuations = more uncertainty than other pools throughout the season
  – More possibility of deviating from your mill’s average weighted price, which is used to calculate advance payments prior to December
  – A Harvest Pool price that is lower you mills weighted average price = a reduced flow after the season compared to other pools
## Historical overview of QSL pools

<table>
<thead>
<tr>
<th>QSL pool /benchmark</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 (est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive management bench</td>
<td>$344</td>
<td>$529</td>
<td></td>
<td>$503</td>
<td>$417</td>
<td>$383</td>
<td>$395</td>
</tr>
<tr>
<td>Guaranteed Floor Pool</td>
<td></td>
<td></td>
<td></td>
<td>$480</td>
<td>$481</td>
<td>$392</td>
<td>$428</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Floor = $463</td>
<td>Floor = $477</td>
<td>Floor = $389</td>
<td>Floor = $427</td>
</tr>
<tr>
<td>Discretionary Pool **</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$438</td>
<td>$394</td>
<td>$438</td>
</tr>
<tr>
<td>Actively Managed Pool</td>
<td>$334</td>
<td>$520</td>
<td></td>
<td>$693</td>
<td>$454</td>
<td>$408</td>
<td>$440</td>
</tr>
<tr>
<td>Growth Pool **</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$423 $440</td>
</tr>
<tr>
<td>2 Season Forward Pool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$431 $419</td>
</tr>
<tr>
<td>3 Season Forward Pool **</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harvest Pool</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$431</td>
<td>$389</td>
<td>$408</td>
</tr>
</tbody>
</table>

Note: Prices shown are gross and therefore do not include a Shared Pool component. Past performance is provided for reference only and may not be indicative of future performance. ** these pools are no longer be offered.
Possible considerations for pricing

• Do I want to participate in a pooling arrangement or do I want to lock-in a guaranteed price?
  – Pools allow participation in markets over a defined timeframe
  – Individual forward pricing provides a known outcome

Pool considerations

• What requirements do I have when it comes to selecting pools e.g. committed vs uncommitted pools?
• How much sugar can I guarantee I will produce this season?
  – Am I willing to pay for not delivering (individual production risk)
• How much risk am I willing to take on from the volatile sugar and currency markets? (price risk)
• How will my pricing choices affect my ongoing payments throughout the year (advances program)?
Your production risk

US Quota is standard [up to 5%] so what else can I do?

Do I want to commit tonnes?

YES

Committed tonnage pools [ICE 11 Max 60%]

Do I want to make decision on pricing?

YES

Mill forward pricing option

QSL Managed Pools
- QSL Actively Managed Pool
- QSL Guaranteed Floor Pool
- 2-Forward Season Pool
Mill Managed Pools
- See your mills documentation

NO

QSL Guaranteed Floor Pool

2-Forward Season Pool

NO

Uncommitted tonnage pool

Harvest Pool [Min 35%]

Size of pool affects how it is managed
The size of the production buffer depends on how many tonnes are in the overall pool & how sugar is priced/sold during the season.

Or a combination of mill products and QSL-managed pools
Where do I go for further information?

• QSL’s Pricing Declaration Date for mills is 27 February 2015.

• For administrative reasons you may be required to nominate earlier than this date, so you need to talk to your mill about your pricing declaration requirements

• Pool description sheets (www.qsl.com.au)

• QSL RSSA Marketing Guide (www.qsl.com.au)

• Growers should consider their individual circumstances before making choices regarding pricing

• Seek professional advice from your accountant and/or solicitor

• Contact QSL’s Industry Relationship Managers
  – Cathy Kelly on 0409 285 074 or cathy.kelly@qsl.com.au
  – Carla Keith on 0409 372 305 or carla.keith@qsl.com.au
Serving the interests of our members for the long-term prosperity of the Queensland sugar industry