AN OVERVIEW OF RSSA POOLING PRODUCTS

FOR THE 2012 SEASON

QSL

Disclaimer

The information provided in this overview is of a general nature and does not take into account any particular financial situation or needs.

It is important to read the information in this presentation in conjunction with the ***Pool Descriptions*** *and the* ***QSL RSSA Marketing Guide****.*

Before selecting any pool option, you should consider carefully the terms and conditions of the pool and your own circumstances.

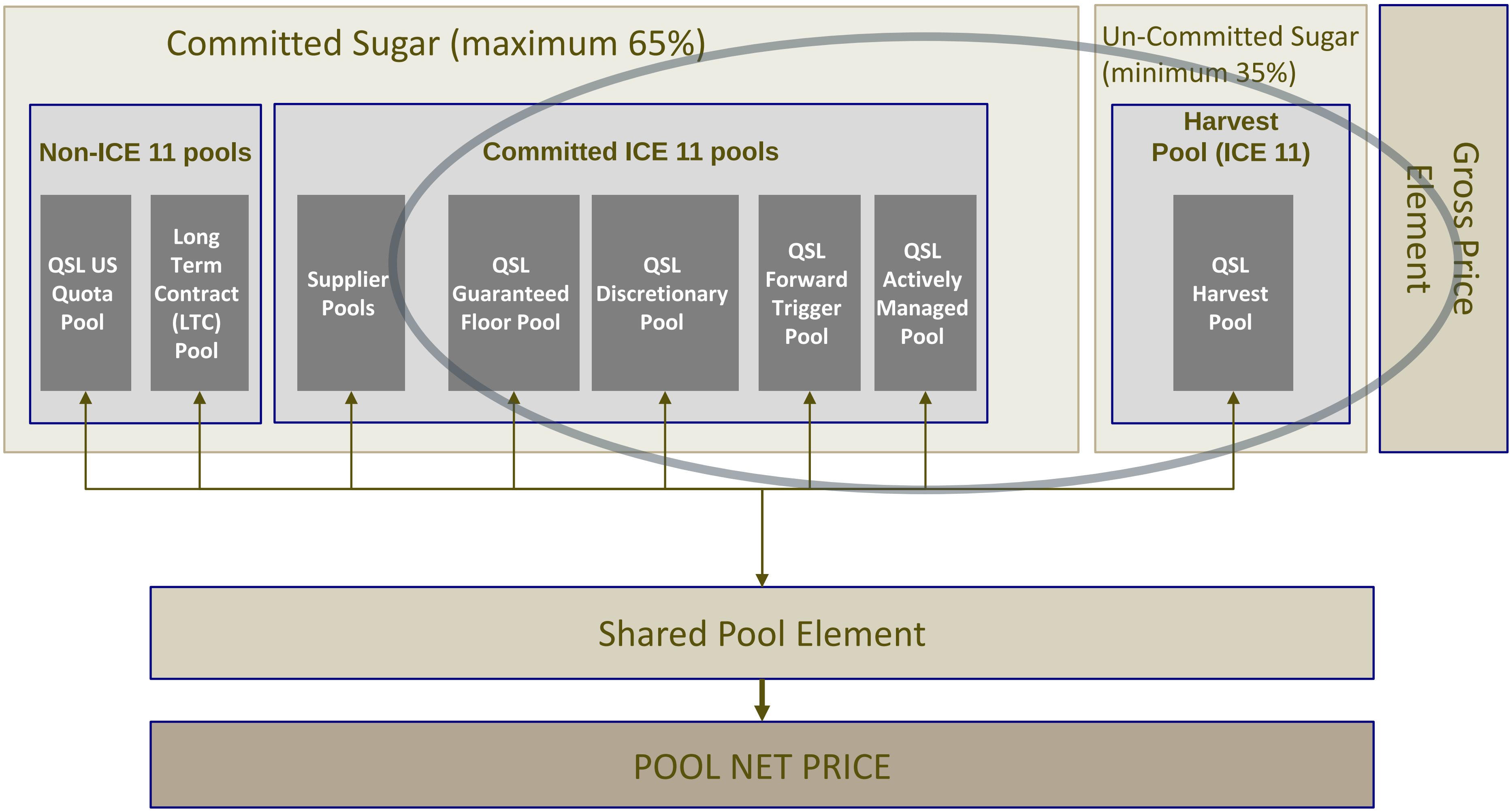
This presentation

1. Background to development of new products
2. Committed Sugar Pools
    - QSL US Quota Pool
    - ICE 11 Committed Pools
        - QSL-managed Committed Sugar Pools
        - Supplier-directed Committed Sugar Pools
3. The Harvest Pool
4. Risk management processes

Background to date – why new products?

- One key outcome of P&P Review was to amend the pooling system and products on offer
- QSL system is valued by stakeholders but changes are required to improve ability to withstand adverse events
- From 2012, QSL to run two types of pools:
  - Committed Sugar Pools
    - **Volumes are fixed** – sugar **is** priced in advance
  - Harvest Pool
    - **Volumes are not fixed** – with majority of sugar **not** priced in advance
- QSL will no longer operate the Seasonal Pool
- Purpose of today is to outline detail and key facts about new pools

RSSA Pooling Environment



Key features of 2012 marketing system

- 2012 Season Pricing Declaration Date is 29 February 2012
- QSL US Quota Pool is mandatory
- Committed Sugar Pools are optional (suppliers determine which of these to offer growers)
- Everyone needs to participate in the Harvest Pool
- All pools carry production and price risks
- All pools have unique strategies for managing these risks

Committed Sugar Pools

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Overview: Committed Sugar Pools

- Committed Sugar Pools are either QSL-directed or supplier-directed

Pool name	Participation	Price management	Supply obligation
QSL US Quota Pool	Mandatory	QSL directed	ALL FIXED
QSL Discretionary Pool	Optional	QSL directed	
QSL Guaranteed Floor Pool	Optional	QSL directed	
QSL Actively Managed Pool	Optional	QSL directed	
QSL Forward Trigger Pool	Optional	QSL directed	
Supplier Pools	Optional	Supplier directed	
Long Term Contract Pools	Optional	Supplier directed	

- Suppliers may not offer access to all QSL managed pools
- All pools carry risks – we will discuss these later in the presentation

Key facts:
QSL US Quota Pool

POOL OBJECTIVE	**To secure the best possible returns from the US Quota system within the constraints of customer requirements and market liquidity on the ICE 16 futures market**

- This is a Committed Sugar Pool
- Participation is mandatory – tonnage volumes are fixed according to amount of CQEs allocated to the supplier by the Australian Government
- Tonnage is allocated to this pool **before** other Committed Sugar Pools
- Pricing done via ICE 16 – dedicated to US market, thinly traded
- QSL manages marketing, price risk and foreign exchange management

Overview: ICE 11 Committed Pools

- All carry an obligation to supply nominated fixed amount of raw sugar
- Tonnage nominated by the supplier at pricing declaration date (29 Feb)
  - Mills will require growers to nominate earlier for administrative reasons
- Pricing basis 1:2:2:1 ratio
  - Delivers an even amount of futures exposure for both in-season and out-of-season pricing

Overview: ICE 11 Committed Pools - continued

- Pricing may be done by supplier and/or grower, **or** by QSL in a pooled arrangement

- Either way, pricing can be done ahead of actual production season
  - i.e. in 2012 there is scope to price out to 2015

- These pools all have a longer pricing window

- Tonnage commitments deliver certainty
  - Allows for a significant portion of raw sugar to be priced (where appropriate) before harvest commences

Key facts:
QSL Discretionary Pool

POOL OBJECTIVE	**For QSL to exploit opportunities to produce a price outcome greater than the returns that would be achieved by a passive management approach**

- Current season pricing only
- Tonnage nominated at pricing declaration date (29 Feb)
- 1:2:2:1 pricing – even exposure across marketing year
- Tonnage commitment gives QSL discretion to price at any time after the pricing declaration date
  - Subject to limits (+/- 20% to neutral profile)
- Similar to the old Seasonal Pool but now has the benefit of certainty of tonnage supply

Key facts:
QSL Guaranteed Floor Pool

POOL OBJECTIVE	**If the guaranteed floor price can be achieved by the pricing declaration date, this pool will guarantee a minimum underlying return for 2012 season and participation in daily market outcomes above this level**

- Current season pricing only
- Tonnage nominated at pricing declaration date(29 Feb)
- 1:2:2:1 pricing – even exposure across marketing year
- Tonnage commitment gives QSL ability to set a known minimum price at pricing declaration date (29 Feb) and provides scope for limited participation in upwards market movements across full year
- Removes risk of downward market moves post 29 Feb

Season	Floor Price A$ per mt IPS	Estimated Gross Price A$ per mt IPS
2011 to date	A$453	A$480

Key facts:
QSL Actively Managed Pool

POOL OBJECTIVE	**For QSL to exploit opportunities to produce a price outcome greater than the returns that would be achieved by a passive management approach through active trading**

- Current season pricing only
- Tonnage nominated at pricing declaration date (29 Feb)
- 1:2:2:1 pricing – even exposure across marketing year
- Tonnage commitment gives QSL:
  - Wider discretion than other pools to price at any point after the declaration date
  - Ability to buy back pricing and price again within limits (active trading)
- Gains and losses from participating in market volatility may either enhance or reduce pool's return

Season	Benchmark Price A$ per mt IPS	Gross Price A$ per mt IPS
2008	A$344	A$334
2009	A$529	A$520
2010	N/A	N/A
2011 Estimate	A$501	A$679

Key facts:
QSL Forward Trigger Pool (2013)

POOL OBJECTIVE	**To give QSL opportunities secure pricing for a portion of the pool if the market trades to pre-selected target prices up to 16 months prior to the season. For remaining tonnage, QSL will seek to produce a price outcome greater than the returns that would be achieved by a passive management approach**

- Allows QSL to price up to two years forward of the season
- Tonnage nominated 11 months prior to actual declaration date (30 March 2012 for 2013 Season)
- 1:2:2:1 pricing – even exposure across marketing year
- Tonnage commitment gives QSL ability to:
  - Price up to 60% of pool in the preceding year if certain triggers are met
  - Use discretion to price any unpriced tonnage at any point after declaration date (28 Feb 2013)
- Improves on old Seasonal Pool as it has the benefit of tonnage certainty and enables pricing to occur up to 16 months in advance of the season

Overview: Supplier-directed pools (where available)

- Suppliers manage pricing in three pools on offer:
  - Supplier Pricing Scheme, Fixed Price Forward Contract, In-Season Fixed Price Contract
- These pools are tools used by suppliers to offer local pools and forward pricing arrangements to growers as part of local cane supply agreements
- In all three pools, QSL does pricing under the instruction of the milling company
- QSL executes grower forward pricing orders as instructed by the supplier

QSL Harvest Pool

Overview: QSL Harvest Pool

- A significant portion of sugar in this pool will act as a buffer for potential crop variances through the season
- All suppliers will have a **minimum of 35%** in this pool
- Supply obligation
  - there is no obligation to supply sugar to this pool until this sugar is produced and there are no direct penalties for non-delivery of sugar to this pool
  - Suppliers must meet Committed Sugar Pool obligations **before** supplying any raw sugar to this pool
- Limited pricing in season
- Significant portion of pricing will only be done once the sugar is delivered to QSL and exact volumes are known
- QSL markets the sugar in this pool and manages price risk and foreign exchange

How the QSL Harvest Pool will work

- A portion of the pool will be sold/priced in season to manage storage
- The amount of in-season selling/pricing for the pool changes with crop size
- The balance will act as a ‘buffer’ to be priced only when it is delivered to QSL and only after all nominations to Committed Sugar Pools have been met
  - Where committed sugar and storage allows, this will be at least 25% of the supplier’s total initial deliveries estimate
  - Where committed sugar is less than 65% of the initial total estimate, QSL will have limited discretion to price a portion of the buffer volume prior to delivery
- Having a low committed sugar percentage reduces the risks of overselling/overpricing

There are three components to this pool

STORAGE PEAK TRANCHE (July and October Futures)	• Incorporates sugar for the pool that must be sold in-season due to storage constraints at terminals • This component must only be sold and priced after the declaration date • Must only be priced and sold in season
PRODUCTION BUFFER TRANCHE (ON-DELIVERY COMPONENT) (March and May Futures)	• Volume allocated to this component is either 25% of the declared export tonnage, or maximum available storage • This component must only be sold and priced on physical delivery of the raw sugar to QSL
PRODUCTION BUFFER TRANCHE (DISCRETIONARY COMPONENT) (March and May Futures)	• This component can only exist where there is remaining sugar (if any) after volumes are allocated to the two tranches above • This component may be sold and priced after declaration date where Committed Sugar is less than 65% • Can only be sold out of season

How the Harvest Pool will operate

A portion of the pool will be sold/priced in season to manage storage

			Example 1 (000s tonnes)	
A	QLD export estimate		2,700	
B	'Committed Sugar' pools		1,755	(65%)
C	Harvest Pool		945	(35%)
D	QSL's export storage limit		1,600	
E	Required in-season sales	= A – D	1,100	
	In-season sales necessary to manage storage:			
F	'Committed Sugar' in-season sales (50% of 1:2:2:1 profile)	= B x 50%	878	
G	'Uncommitted Sugar' in-season sales	= E – F	222	
			1,100	
G	Harvest Pool Storage Peak sales	= E – F	222	
H	Harvest Pool out-of-season sales	= C – G	723	
			945	

Represents 27% of QSL exports: 1 in 20 year event

Worst crop declines:

1991 22%

2000 31%

2010 25%

How the Harvest Pool will operate

The in-season selling/pricing of the pool changes with crop size

			Example 1 (000s tonnes)		Example 2 (000s tonnes)	
A	QLD export estimate		2,700		3,000	
B	'Committed Sugar' pools		1,755	(65%)	1,950	(65%)
C	Harvest Pool		945	(35%)	1,050	(35%)
D	QSL's export storage limit		1,600		1,600	
E	Required in-season sales	= A – D	1,100		1,400	
In-season sales necessary to manage storage:						
F	'Committed Sugar' in-season sales (50% of 1:2:2:1 profile)	= B x 50%	878		975	
G	'Uncommitted Sugar' in-season sales	= E – F	222		425	
			1,100		1,400	
G	Harvest Pool Storage Peak sales	= E – F	222		425	
H	Harvest Pool out-of-season sales	= C – G	723		625	Represents 21% of QSL exports
			945		1,050	

How the Harvest Pool will operate

A low ‘Committed Sugar’ % reduces the risks of over-selling/pricing

			Example 1 (000s tonnes)	Example 2 (000s tonnes)	Example 3 (000s tonnes)
A	QLD export estimate		2,700	3,000	2,700
B	‘Committed Sugar’ pools		1,755 (65%)	1,950 (65%)	1,080 (40%)
C	Harvest Pool		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 (50% of 1:2:2:1 profile)	= B x 50%	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 out-of-season sales	= C – G	723	625	1,060 (39% of exports)
			945	1,050	1,620

How the QSL Harvest Pool will operate

Discretion to reduce buffer when low there is a low Committed Sugar %

			Example 1 (000s tonnes)	Example 2 (000s tonnes)	Example 3 (000s tonnes)
A	QLD 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 (50% of 1:2:2:1 profile)	= B x 50%	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 out-of-season sales	= 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	Discretionary Component (only available where B < 65% of exports)	= M – H	0	0	385
			723	625	1,060

QSL Harvest Pool - what happens should the buffer disappear

- The buffer disappearing is now an unlikely event given the size of the buffer maintained

- Some mills will still have Harvest Pool Sugar and need a price for that sugar

- Should the buffer disappear, some buy backs will be required
  - Limited storage means the Harvest Pool buffer may not be able to absorb **all** the risk in **all** cases
  - Any buy backs should be small given the size of the buffer

- Costs will be distributed across all pools via an allocation from the Shared Pool
  - Clearly spelled out in QSL's Pool Descriptions and RSSA Marketing Guide

Risk and factors to consider when choosing pools

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Factors to consider in choosing pools

- You need to weigh up **production risk** vs **price risk**
- **All** pools carry a degree of production risk
- Commitment does not mean you **have** to forward price, but it provides more choice and time for price management

Factors to consider in choosing pools

- Pools allow participation in markets over a defined timeframe
  - Pricing window is dependent on whether it is a Committed Pool or the Harvest Pool
  - Committed Pools generally give greater pricing flexibility to QSL
  - All pricing done by dedicated pool manager

- Individual forward pricing provides a known outcome
  - But it limits further participation in the market
  - It requires supply commitments
  - Smaller growers may miss out on participating in the market over time

Risk and Committed Sugar Pools

- Carry a lower price risk
- Price certainty/flexibility is dependent on willingness to be responsible for potential production shortfalls over and above that quantity in the Harvest Pool
- Individual production risk (i.e. I don't deliver tonnage)
  - Costs are levied on individuals (grower or miller) for failing to deliver nominated tonnage
  - Carries a financial cost
- Collective production risk (i.e. others don't deliver tonnage)
  - Will only be additional costs associated with other individuals' non-delivery when QSL Harvest Pool buffer volumes are exhausted
  - This would only occur in rare circumstances

Risk and the QSL Harvest Pool

- Carries a higher price risk
- This is due to uncertainty of tonnage
  - Pricing outcome influenced by when final tonnage is known in conjunction with sugar market movements
- Individual production risk (i.e. I don't deliver tonnage)
  - No obligation means only cost is foregone income
- Collective production risk (i.e. others don't deliver tonnage)
  - Will only be additional costs associated with other individuals' non-delivery when QSL Harvest Pool buffer volumes are exhausted
  - This would only occur in rare circumstances

QSL Advances

- Advances will be largely unchanged
- Rate will reflect the Supplier Pool outcome
- Initial payment upon delivery
- Periodic top-up payments outside the season

Where to get more information

- QSL RSSA Marketing Guide and Pool Descriptions will be available at www.qsl.com.au

- We encourage all suppliers and growers to read these in conjunction with individual cane supply agreements and forward price agreements