Queensland Sugar Limited

Annual Report 2006 – 2007

Queensland Sugar

Our Purpose

To optimise returns from the marketing of raw sugar.

Our Aims

- Deliver a high quality product and superior service to customers
- Provide value-added, cost-effective service and support to producers
- Build long term differentiated and regular export markets, based on a package of consistent high quality; reliable supply; technical advice and product support
- Provide timely and relevant sugar market information to the Queensland sugar industry
- Promote and enhance the long-term profitability of the Queensland sugar industry
- Encourage initiative, innovation and value-adding within the Queensland sugar industry
- Ensure responsible environmental management in our operations
- Provide a safe working environment for all staff.

Who we are

Queensland Sugar Limited is a public company limited by guarantee, incorporated under the Corporations Act 2001.

The company's 35 members represent the Queensland sugar industry and are:

- 10 mill owners
- 23 Grower Representative Members elected to represent various mill areas in Queensland
- Australian Cane Farmers Association
- CANEGROWERS.

We receive no government funding or subsidy and the cost of operations is deducted from the proceeds of raw sugar sales.

What we do

- Provide a raw sugar export marketing service that creates value for suppliers and customers
- Manage six bulk sugar terminals
- Manage sugar price and foreign exchange exposure
- Manage advances and payments to mill owners.

Queensland Sugar

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CHAIRMAN'S OVERVIEW

As foreshadowed last year, the 2006/07 season was the start of a new era in QSL's marketing of the raw sugar produced in Queensland. Ahead of the season, eight of Queensland's ten mill owners entered supply contracts with QSL for the export marketing of their raw sugar and the completion of some existing domestic supply contracts. The agreements retain the strength and integrity of collective selling and provide an opportunity to strengthen the relationships between our suppliers and customers. The deregulated environment also provides an opportunity for QSL, working with mill owners, to develop new mechanisms that will provide a wider range of options for suppliers to determine how their sugar price risk is managed.

Transition to the new operating environment proceeded smoothly, with QSL marketing 4.02 million tonnes actual of which 3.3 million tonnes actual was exported. The decline in the quantity of sugar QSL marketed reflects the impact of tropical cyclone Larry on industry production, the decision taken by two mills not to enter supply contracts with QSL and transitional arrangements associated with QSL's withdrawal from the domestic market.

The 2006/07 season was the first for which there was no statutory pool. Instead QSL offered a discretionary pool and continued to offer mill owners the supplier managed pricing system (SMPS) as a means of managing pricing activities. Benefiting from opportunities to capture high world sugar prices early in the 2006/07 pricing window, QSL achieved a price of $367.99 per tonne IPS for the discretionary pool. However, the period of significantly higher prices was short lived as a large surplus has developed with significant production increases around the world, particularly in India.

Building on the strength of the supply contracts, QSL has worked with mill owners to develop new mechanisms that will allow a greater range of pricing options to be offered for the 2008 and future seasons.

QSL's sub-lease with Sugar Terminals Limited (STL) for the bulk sugar terminals has been extended to 30 June 2008, to enable QSL and STL to review a range of options for the operation of the terminals as future arrangements are considered. To date although there has been discussion between the companies, a final position on the future has not been reached. The lease of the Brisbane bulk sugar terminal has been terminated and QSL has made alternative, lower cost arrangements for the handling of its relatively small tonnage in Brisbane.

With growing international trade protectionism, QSL continues to work closely with, and on behalf of, industry, the Australian government and our like-minded Global Sugar Alliance colleagues to present the case for improved sugar market access around the world. The level of ambition in the slow moving WTO Doha negotiations has fallen as negotiators attempt to keep the round alive. In this difficult environment, bilateral trade agreements have taken on a new significance. We continue to advocate the need for sugar to be properly considered as these negotiations proceed.

I wish to acknowledge the commitment, ability and tenacity of our staff to strengthen the business during this period of change. I also acknowledge the dedication and commitment of all my board colleagues for their contribution to QSL's good governance. I join with the board in thanking Rino Cargnello and Warren Martin who retired as directors at the 2006 annual general meeting for the substantial contribution they made to QSL over a number of years, and welcoming Mark Hochen, who joined the board as a mill owner director, and Maryann Salvetti, who joined as a grower director.

The raw sugar market continues to change rapidly. We are confident that QSL's strategy of positioning Australia as a leading export supplier to Asia will continue to deliver long term value for our raw sugar export suppliers.

Keith De Lacy AM
Chairman
24 September 2007

CHIEF EXECUTIVE'S REPORT

2006/07 was the first year of the deregulated marketing environment, and during the year QSL has worked closely with suppliers to meet the requirements of a dynamic marketplace. QSL's long-term commitment to reliably supplying a quality product that meets individual customer needs on a consistent basis is unchanged. This year, we have worked more closely with suppliers to involve them in the marketing strategy for their raw sugar as their export marketer and to develop a new pricing mechanism that will provide producers greater discretion in decisions regarding the pricing of their production. These new mechanisms will be made available from the 2008/09 season and are a further step in our efforts to enhance the services QSL offers.

Over the past few years QSL has made considerable reductions in marketing and operating costs. In 2006/07 we have made further savings. We have also tightened our focus around core markets, made considerable efforts to provide suppliers with additional services, and merged our marketing and treasury teams to drive greater decision making synergy and greater value in the pricing and physical marketing of our suppliers' raw sugar. Drawing on the experience of the supplier managed payment system (SMPS), we will be introducing a range of new price mechanisms from 2007/08. These will provide a greater range of options for sugar price risk management by suppliers. The choice in pricing mechanisms will provide enhanced opportunities for producers to manage the pricing of their production. As well as operating the overall pricing mechanism, QSL will offer a range of in season and longer term pricing pools.

QSL is continuing to consider ways to achieve greater efficiency, further cost savings and integration with STL in the operation of the bulk sugar terminals. We continue to strive to ensure this important part of the supply chain is internationally competitive. QSL's fixed cost sub-lease payments to STL, linked to movements in the consumer price index, continue to increase. QSL is concerned over this and the structure of STL shareholding. It is our belief that the operation of the bulk sugar terminals should continue to be for the benefit of all industry participants. QSL has purchased 10.6 million STL "G" class shares.

Our ongoing work on behalf of the industry to improve the international sugar trading environment has created new market dynamics and opportunities as the EU reduces its export tonnage, as a direct result of the successful challenge to its practices in the WTO. We continue to work closely with government to achieve further gains, particularly on the bilateral front. We also continue to work closely with our international colleagues in the Global Sugar Alliance and governments to achieve better multilateral trade outcomes for sugar.

Key outcomes and performance features

- 2006/07 Discretionary Pool Price –$367.99 per IPS tonne
- Payment to Mill Owners – $1.566 billion
- Tonnes marketed – 4.02 million tonnes actual of Queensland raw sugar
- 71% of 2006/07 season payments made to producers by 31 December 2006
- Average borrowing rate achieved – 6.26%
- Direct selling expenses – decreased by $22.6 million (16%) compared to 2005/06
- Bulk sugar terminal operating expenses excluding rental expenses paid to STL – increased by $1.7 million (9.3%) compared to 2005/06 due to increased maintenance
- Bulk sugar terminal sub-lease rental expenses paid to STL – increased by $1.7 million (3.5%) compared to 2005/06
- Chartered 125 ships
- Active management of freight exposure contributed $2.8 million to pool returns
- Standard and Poors ratings – A1+ (short term) and AA- (long-term)

Workplace health and safety and environmental management

Consistent with our core values, an important aspect of QSL's operating activities is the emphasis we place on achieving strong environmental management and workplace health and safety outcomes, particularly in our bulk sugar terminal activities, where the nature of the operations present the greatest environmental management and workplace health and safety issues for QSL. In pursuit of our objective to provide a working environment where all people are confident in their safety, we achieved and celebrated 18 months of being lost time injury free.

Sugar market environment

As the pricing window for the 2006/07 season opened, raw sugar prices were high. In the first part of 2006, sugar values climbed to levels not seen in over twenty years; the NY11 prompt contract peaked at US 19.73 c/lb in February 2006. From that peak, market sentiment changed and sugar prices fell to trade in a broad range of US 9 to 11 c/lb. The fall in price reflected expectations of a surge in world production arising from the coincidence of strong investment in new productive capacity around the globe, in anticipation by many that very high prices would continue, and from improved seasonal conditions, especially across southern Asia particularly in India. The announcements in India of export subsidies by the Central Government, the State of Maharastra and the Indian Sugar Exim Corporation Limited (ISEC) offset in part the benefit of the EU's withdrawal from the export market as it moved to implement the WTO decision.

During the year, weakness of the US dollar has meant that currencies of Australia and Brazil have strengthened significantly. The value of the Australian dollar rose sharply from a low of AUD/USD 0.71 early in the pricing window to more than AUD/USD 0.85 when the season closed. While this has been negative for returns in Australian dollars, it has served to underpin the world sugar price as the cost of production in Brazil has increased sharply with the strengthening of its currency.

Operating performance

The sugar price fell by almost 50 per cent during the year and the exchange rate rose by almost 20 per cent during the year. In this deteriorating market environment QSL's progressive forward pricing strategy enabled us to capture some benefit from the prices available early in our pricing window. As a result QSL delivered a 2006/07 discretionary pool price (the first in a deregulated market environment) of $367.99 per tonne IPS. This fell below our initial expectation of a discretionary pool price in excess of $400 per tonne. However, it was ahead of QSL's market indicator price for this year by approximately 6 per cent. The changed price environment is expected to reduce returns from raw sugar sales in 2007/08.

Operating costs at the bulk sugar terminals were again below budget. However, expenditure increased for the first time in a number of years as previously delayed maintenance was undertaken. The general skills shortage continues to impact on our business, slowing new recruitment. Our bulk sugar terminal team continues to provide storage and handling services for QSL's marketing activities to mills for the majority of sugar destined for the domestic market and to the mills not participating in supply contracts to QSL. We acknowledge and value the positive contribution of our people in the coordination of these activities, ensuring business continuity and meeting the challenges of a changing environment.

During the year, there were fewer shipments associated with the smaller, cyclone affected crop. Our approach to fixing freight rates as sales are made has been effective in a rising freight market. The trend to larger vessel sizes on average continued. We loaded 3.57 million tonnes actual of raw sugar on to 125 ships across seven different ports, each cargo tailored to meet individual customer quality specifications.

Commercially negotiated marketing arrangements

Moving into an environment of commercially negotiated marketing arrangements is the biggest single change in QSL's operating environment that has occurred for a number of years. During the year we worked closely with suppliers to ensure the change was seamless for our export customers.

For our supplying mills, QSL is continuing to offer an integrated supply chain through its management and operation of the bulk sugar terminals to ensure customer supply needs (quality, quantity, reliability and timing) are met. The integrated marketing package draws its strength from our suppliers' geographic diversity and the critical mass to maximise value in terms of sales premiums, shipping rates and marketing costs. The strength of these longstanding points of differentiation for marketing physical raw sugar is a major factor in the QSL marketing package.

For many years QSL has held the view that a single pricing pool is not able to meet the price expectations of every producer. During the year, working closely with suppliers, QSL has developed a new mechanism that can be used to introduce a range of new pricing options that will provide mill owners and, through them, their cane growers greater choice in their pricing decisions. For its part, QSL will offer a number of different pooling options for the 2008/09 season and for future seasons which will provide the opportunity to capture values as the opportunities arise. We expect to introduce further pricing options as we gain experience with the new structures and respond to the evolving needs of our suppliers.

QSL was less active in the Australian domestic market in the 2006/07 season during the transition in domestic supply arrangements. With the transition complete, domestic refiners will source their sugar through direct negotiations with sugar mills. From the commencement of the 2007/08 season QSL's market activity will focus principally on raw sugar export supply.

Meeting customer demand

In the 2006/07 season, QSL exported less sugar than in 2005/06. Nonetheless demand for Queensland's export sugar remained strong. Reflecting changes occurring in the international market and growing customer demand as world prices fell and importers restocked their supply pipeline, we were able to increase our focus on meeting the needs of customers in the Asia-Pacific. Supplying these customer requirements was the focal point and a key driver of our activities. The market continues to evolve, responding to the surge in Indian sugar production and the changing needs of Asian refiners. The Far East region has increased its raw sugar import demand and we are concentrating on supplying customers in this natural supply region. Physical premiums for raw sugar have increased in the region. With rising demand for sugar and a range of other commodities, freight rates are expected to remain high, supporting the continuation of strong physical premiums in 2007/08. The point of difference for QSL and the mills it represents in the international raw sugar market continues to be the creation of value for both customers and suppliers by matching their interests in our product offering to maximise the mutual benefits. The management of the supply chain directly to customers is a major part of our offering to customers. We will continue this fundamental value proposition into 2007/08 and strive to maintain a strong focus on customer service and operational performance to ensure the benefits continue to flow from strong, longstanding relationships.

Cash management

As Queensland's principal raw sugar export marketer, QSL is responsive to suppliers' cash flow needs. We understand the requirement for cash payments for raw sugar delivered to be made as expeditiously as possible during the year. The initial price environment enabled us to make a higher initial advance payment than in previous years and, although the price fell during the year, our progressive sales program ensured a continuation of sales revenue throughout the year and cash flow to suppliers was strong. In the year ahead, we will deliver cash flow to suppliers reflective of cash flows in a lower world price environment. One of the new pricing mechanisms we are developing for the 2008/09 season is designed to deliver an accelerated cash flow to suppliers should they choose to access it.

Our people

We recognise our people and note that this year's performance is a reflection of their commitment and dedication. These energetic, high performing people are working to understand and match the needs of our suppliers and customers. Together we are working to make QSL different and, in the new environment, more responsive than ever!

As we work to make QSL different, providing improved services in pursuit of our goal of creating long-term value for our suppliers, we have not lost sight of our underlying responsibility to operate QSL in a sound manner. Customer satisfaction, supplier value, employee welfare, environmental management and workplace health and safety are key corporate values. These continue to underpin all our operating and strategic decisions.

Ian White
Chief Executive
24 September 2007

DIRECTORS

Keith De Lacy *AM HonDLitt DUniv BA QDA FAICD FAIM* **– Chairman**

Keith De Lacy was appointed chairman of Queensland Sugar Limited on 5 July 2004. On 6 June 2005 he was elected chairman of the Global Sugar Alliance for Sugar Trade Reform and Liberalisation.

Keith is currently also chairman of Macarthur Coal, Trinity Group and Cubbie Group, and is a director of Reef Casino. He has extensive experience in business administration and corporate governance. He has been appointed a vice president of the Queensland Division of the Australian Institute of Company Directors (AICD) and he is also a fellow of the Australian Institute of Management (AIM).

He has previously been awarded Honorary Doctorates from both James Cook and Central Queensland Universities, the University of Queensland Gatton Gold Medal, and a Centenary Medal.

Keith was Treasurer of Queensland from 1989 to 1996. Lives in Cairns.

Ian H White *BEcon (Hons) CPA FAICD* **– Managing Director and Chief Executive**

Ian White has extensive experience at senior management level in the agricultural commodity sector both in Australia and North America. He is a director of the Cubbie Group and is a member of the Queensland Competition Authority. He previously headed Queensland Cotton's Australian and US operations, was managing director and chief executive officer of Defiance Mills Limited, and was the chief executive of Grainco Limited. Ian was also a director of the World Sugar Research Organisation. Appointed 17 April 2000. Lives in Brisbane.

Alf F Cristaudo

Alf Cristaudo has extensive experience in the cane industry. He is chairman of Queensland Canegrowers Organisation Limited, Australian Canegrowers Council, Canegrowers Financial Services Pty Ltd and Canegrowers Superannuation Pty Ltd. He is President of the World Association of Beet and Cane Growers and is a member of the Policy Council of the National Farmers' Federation. He is chairman of Canegrowers Herbert River District and Co-Chairman of the Herbert River Regional Industry Board as well as a board member of the CRC for Sugar Industry Innovation through Biotechnology and a member of the Sugar Industry Oversight Group. He is a former director of the Queensland Sugar Corporation. Appointed 24 December 1999. Lives in Ingham.

Ian D Glasson *BEng (Hons)*

Ian Glasson joined CSR as CEO of the Sugar Division in April 2006.

Ian was previously managing director of Gresham Rabo Management Limited, a company formed as a joint venture in private equity by Rabobank and Gresham Partners, which specialised in Food and Agribusiness investments. Ian also spent 9 years with Goodman Fielder where he was most recently managing director of Goodman Fielders' global Food Ingredients business, headquartered in Philadelphia, USA. In Ian's career with Goodman Fielder he also served as general manager of Leiner Davis Gelatin and was group manager Corporate Development responsible for the food group's M&A activity.

Ian also has 18 years broad industry experience including a long career in the oil and gas industry with Esso Australia Ltd and its parent Exxon in the USA and has spent time in the building and construction sector with Kone Elevators. Appointed 15 May 2006. Lives in Sydney.

Mark Hochen *BBus FCPA FAIM FCIS MAICD*

Mark Hochen is the General Manager of Isis Central Mill, a position he has held since 1993. His training and prior employment was in the finance and accounting area. He has significant experience in the Queensland sugar industry, being first employed at the Isis Central Mill in 1981. Mark is chairman of Sugar Research Limited and of Australian Sugar Milling Council Industrial Relations Committee. He is a director of Isis Productivity Limited and the Australian Sugar Milling Council. Appointed 25 October 2006. Lives in Isis Central Mill.

Sarah A Israel *BBus FCPA FAICD*

Sarah Israel has wide experience in investment banking and regional development in both the private and public sectors. She is currently a director of Australian Biodiesel Group Limited (ABG), CS Energy Ltd and Electricity Supply Industry Superannuation Fund (Qld) Ltd. Sarah is chair of the Audit Committees of Queensland Sugar Limited, ABG, and ESI Super and a member of the Audit Committee of CS Energy Ltd. She has also been deputy chairman of the Building and Construction Industry (Portable Long Service Leave) Authority, a director of Queensland Electricity Transmission Corporation, Export Finance and Insurance Corporation and Queensland Motorways Limited. Sarah is a former director of the Queensland Sugar Corporation. Appointed 24 December 1999. Lives in Brisbane.

James R Kennedy *B Comm Dip Ag Ec FAIM*

Jim Kennedy has extensive experience in commodity trading, food product exports, strategic marketing and financial risk management. He is chairman of Craig Mostyn Ltd and is also a director of Food Science Australia (being chairman of its finance committee). He is a former member of the Trade Policy Advisory Council, and was the executive director of the Prime Minister's Supermarket to Asia Council. He was also previously managing director of Ricegrowers' Co-operative Limited and a number of its joint ventures and subsidiaries as well as more recently having been a director of Tandou Limited and Golden Circle Ltd and chairman of its Audit Committee. Jim was awarded a Centenary Medal for his contribution to the food industry. Appointed 23 July 2001. Lives in Canberra.

Russell K McNee

Russ McNee is a cane farmer in the Burdekin area. He is currently chairman of Burdekin Regional Advisory Group, appointed by Federal Government, August 2004. He has more recently been a director of Queensland Canegrowers Organisation Limited (2005-2007 and previously from 1998-2001) and a director of Canegrowers Burdekin Limited (2005-2007; and chairman of Invicta Cane Growers Organisation Limited from 1998-2004). He has also retired from his positions with the Burdekin River Irrigation Area Committee (1994-2006) and Queensland Irrigators Council (1994-2006). He is a former Invicta Grower Representative member of Queensland Sugar. Appointed 21 January 2003. Lives in Ayr.

Geoffrey E Mitchell *AO*

Geoff Mitchell is non-executive chairman of Bundaberg Sugar Ltd (having retired as its managing director in 2004) and is a deputy chairman of the Australian Sugar Milling Council. He is a member of the Food and Agribusiness Advisory Board of Rabo Australia Limited and PIBA and the Australian Government's Sugar Industry Oversight Group. Geoff has been a member of the Business Council of Australia and has held board positions in the sugar industries of China and Vietnam as director of Tate and Lyle Swire Limited and Nghe An Tate and Lyle Sugar Company Limited. He is a former director of Sugar Terminals Limited and the Queensland Sugar Corporation. Appointed 28 July 2000. Lives in Brisbane.

Maryann Salvetti

Maryann has extensive primary industry, marketing and company director experience including over 28 years as a primary producer; partner and co-manager of an agricultural enterprise covering 190 hectares of sugar cane production as well as the production of grass seeds, legumes, peanuts, maize, wheat and sorghum. In addition she is co-managing director and marketing manager for North Queensland Tropical Seeds, a wholesale, processing and exporting company supplying seed to both the domestic and international markets. Maryann is currently chairperson of Tableland Sugar Services, a director of Tableland Canegrowers Limited, Tableland Contracting Services Pty Ltd, Tanita Pty Ltd and secretary/public officer of Tableland Sugar Pty Ltd. Maryann was a director of BSES Ltd and has been the recipient of many awards such as ABC Radio Far North Rural Woman of the Year, ABC Radio Queensland Rural Woman of the Year, Atherton Shire Australia Citizen of the Year, Bursary winner to attend 2nd International "Women in Agriculture" Conference – Washington DC and was awarded a Centenary Medal in 2001. Appointed 25 October 2006. Lives in Tolga, Far North Queensland.

Paul A Schembri *FAICD*

Paul Schembri has more than 30 years of practical experience in sugar cane production and has been involved with representing growers for 24 years. A cane grower in the Farleigh area near Mackay, he was appointed to the board of the Queensland Cane Growers Organisation Limited in 1989. He is currently chairman of Mackay Canegrowers Limited and a vice chairman of Queensland Canegrowers Organisation Limited. Paul is a director of Canegrowers Financial Services Pty Ltd and a director of Canegrowers Superannuation Pty Ltd. Appointed 23 October 2003. Lives near Farleigh.

Charles E (Eddie) Westcott

Eddie Westcott was appointed chairman of Mackay Sugar Co-operative Association Limited in 2002 (previously deputy chairman since 1992) and is a director of Sugar Australia Pty Limited, New Zealand Sugar Company Limited, Australian Sugar Milling Council and the Mackay and Whitsunday Regional Economic Development Corporation. Appointed 19 February 2003. Lives in the Sarina district.

COMPANY SECRETARY

David M Munro *BA LLB D Couns FCIS*

David Munro has over 30 years corporate, legal and corporate governance experience, including 15 years as company secretary and general counsel of MIM Holdings Limited. He also served as a director on numerous Australian and international companies associated with MIM. Currently, in addition to the role as company secretary of QSL, he is company secretary of BSES Limited.

DIRECTORS WHO RETIRED AT 25 OCTOBER 2006 ANNUAL GENERAL MEETING

Rino Cargnello *FAICD*

Rino Cargnello has been involved in the sugar cane industry since 1961. He was elected to the Board of the Tully Co-operative Sugar Milling Association Limited in 1971. He served as chairman from 1982 to 2005. Rino is a member of far north Queensland regional advisory group. He is a former chairman of Sugar North Limited and a former director of the Queensland Sugar Corporation and the Australian Sugar Milling Council.

Warren A Martin *Dip Man MBA MAICD*

Warren Martin was a director of Queensland Rural Adjustment Authority, is a former chairman of Australian Cane Farmers Association, and a former director of Sugar Terminals Limited. He is a past board member of the Bureau of Sugar Experiment Stations, was previously an elected member of Mulgrave Mill Supplier's Committee and deputy chairman of Canegrowers Cairns District Executive.

CORPORATE GOVERNANCE

The role of the board

The Queensland Sugar Limited board is responsible for setting the company's strategic direction and monitoring senior management performance.

The board's functions include:

- promoting the good health of the company by embracing appropriate issues of good corporate governance
- setting the organisation's strategic direction and goals
- reviewing and approving policies, plans, performance targets and budgets
- assessing Queensland Sugar's ongoing performance and strategies and monitoring both the suitability of strategies and the performance of management
- over-viewing the establishment of, and adherence to, appropriate systems to:
  - enable the company's business and financial risks to be managed
  - enable the company's assets to be safeguarded
  - enable business to be conducted in compliance with laws and regulations
  - meet ethical and corporate governance standards.

Directors receive monthly reports from the chief executive and senior management on the company's marketing, operational, financial, and financial risk management performance and these reports are discussed at the monthly board meetings. The board also reviews sugar consumption and sugar production patterns, and governments' involvement around the world, to identify strategies to optimise returns to its suppliers. Meeting agendas are set by the chairman and chief executive.

New directors receive comprehensive briefings from management on all areas of the company's activities.

Composition of the board

The board comprises 11 non-executive directors together with the chief executive who, under the company's constitution, is the managing director. Under the company's constitution, there are four grower directors; four mill owner directors; and at least three directors, other than the chief executive, must have specific expertise in commodity marketing, finance, vesting, law or business administration and be independent of sugar industry representative bodies.

Non-executive directors act as independent advisers to the company, rather than representing their own interests or those of their organisations. If a potential conflict of interest does arise, the director concerned does not receive the relevant board papers and leaves the meeting room while the matter is discussed.

Remuneration of directors

Queensland Sugar Limited's constitution requires that the aggregate fees to be paid to non-executive directors be set by the company in general meeting. The initial aggregate fees were agreed with the sugar industry representative bodies, based on remuneration previously determined by the Queensland Government for the Queensland Sugar Corporation, and were subsequently confirmed at the company's annual general meeting in 2001. Directors are reimbursed travel and related expenses incurred in the course of carrying out their duties. Non-executive directors do not receive retirement benefits other than amounts set by the compulsory superannuation levy required under the Superannuation Guarantee Act.

Board committees

To assist in carrying out its functions, the board has established a Finance, Audit and Compliance Committee. The committee has a formal terms of reference approved by the board.

The current members of the committee are Ms SAD Israel (committee chair), Mr AF Cristaudo, Mr ID Glasson and Mr KE De Lacy (company chairman). The chief executive, the general manager – finance and corporate services, and representatives of the external and internal auditors attend by invitation. The committee's role is to assist the Board in reviewing systems and controls in place for financial reporting, risk management, and compliance with company policies and with laws and regulations that apply to the company's activities, and in maintaining an effective and efficient audit function.

Specific responsibilities include advising the board on the appointment and remuneration of external auditors and reviewing, in consultation with management and the auditors, the audit plans and results of both external and internal audits and actions proposed arising from them. The committee is a direct link for providing the views of internal and external auditors to the board, if necessary, independently of management influence. The committee also monitors and advises the board in relation to all matters necessary to ensure the company adopts and follows sound principles of corporate governance.

Directors established a Board Administration Committee in 2003 for the limited purpose of authorising the execution of a document under the common seal of the company, or otherwise on behalf of the company, where the document brings into effect or implements a decision already taken by the board, or acknowledges a matter agreed at a board meeting; or where the subject matter of the document falls within the scope of the Financial Delegations and Authorities policy and has been approved within the scope of that policy. The committee has a formal terms of reference approved by the board. A committee consists of any two directors, one of whom must be either the chairman of the company or the managing director.

The Board established several committees during the reporting period for the purposes of considering and recommending actions on constitution review, management remuneration and future relationships with Sugar Terminals Limited. Details of membership of each of these Committees are set out below.

Managing risk

Monitoring and reviewing financial risk is a key function of the board, and approved principles and policies are in place to manage sugar price and foreign exchange risk. The board regularly reviews these policies. Speculative transactions are not permitted. Hedging is only permitted under the policies to manage risks associated with the sugar pool prices schemes. In its commitment to managing its exposure to significant business risk, Queensland Sugar Limited also has policies for:

- customer and trade credit
- liquidity risk management
- credit risk – financial institutions
- environmental management and compliance
- crisis management
- compliance with trade practices law
- workplace health and safety
- equal opportunity and anti-discrimination
- privacy
- corporate risk management

Business conduct

The board has adopted a Code of Ethics requiring directors, management, employees, agents and brokers to act with integrity and objectivity, and maintain high standards and ethical behaviour in the execution of their duties.

Under the code, all those associated with Queensland Sugar Limited must act in accordance with the fundamental principles of integrity, objectivity, confidentiality, ethical behaviour, professional standards and consultation.

Independent advice

Queensland Sugar Limited recognises that there may be occasions when the board as a whole, or directors as a group or as individuals, believe it to be in their interests and in the interests of the company to seek independent professional advice on matters such as accounting, taxation or law, at the company's expense. Requests for the provision of such advice are to be directed to the chairman or the company secretary.

DIRECTORS' REPORT

In conformity with the *Corporations Act 2001*, your directors present this report on the company for the financial year ended 30 June 2007 (the reporting period).

Review of operations and results

The operations of the company during the reporting period and the results of those operations are reviewed in detail on pages 1 to 4 of this annual report and these pages form part of this report.

Change in state of affairs

The state of affairs of the company and significant changes thereto are set out on pages 1 to 4 of this annual report. Other than these matters, there was no significant change in the company's state of affairs during the reporting period.

Principal activities

The company's principal activities are the marketing of sugar and the provision of ancillary services in transport and management of financial risk in connection with such marketing. There have been no significant changes in the nature of those activities during the year. During the 2005/2006 financial year, the statutory provisions of the *Sugar Industry Act 1999* as amended that vested sugar on manufacture in Queensland ended. Since the end of these statutory provisions, the company has entered into purchase and agency agreements with eight Queensland milling companies to continue these marketing activities on behalf of those suppliers.

Events after end of reporting period

Other than reported on pages 1 to 4 of the annual report, no matter or circumstance has arisen since the end of the reporting period that has significantly affected or may significantly affect:

- the company's operations in future financial years;
- the results of those operations in future financial years; or
- the company's state of affairs in future financial years.

Likely developments

Likely developments in the company's operations in future financial years and the expected results of those operations are referred to on pages 1 to 4 of this annual report.

Environmental performance

The company's operations are subject to significant environmental regulation under Commonwealth and Queensland law, particularly with regard to air, noise, water, waste management and site contamination at its bulk sugar terminal operations.

The company has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

Directors are not aware of any significant breaches of environmental regulation during the reporting period.

Information relating to directors

The following table shows the persons who were directors during the reporting period and the attendance of directors at meetings of the board. There were 15 board meetings during the reporting period.

KE De Lacy	15	M Hochen	10[2]	MA Salvetti	10[2]
R Cargnello	5[1]	JR Kennedy	14	PA Schembri	15
AF Cristaudo	14	RK McNee	14	E Westcott	13
SAD Israel	14	WA Martin	5[1]	IH White	15
ID Glasson	15	GE Mitchell	14		

([1] attended the five meetings held to retirement on 25 October 2006)

([2]attended the ten meetings held since appointment on 25 October 2006)

The Finance Audit and Compliance Committee met five times during the reporting period. Committee chair Ms SAD Israel and Messrs AF Cristaudo and ID Glasson attended all meetings. Mr KE De Lacy attended three meetings. Mr RK McNee attended three meetings as an observer and Mr PA Schembri attended one meeting as an observer.

No Board Administration Committee was required during the reporting period. A committee consisting of Messrs KE De Lacy, AF Cristaudo, GE Mitchell and IH White met on one occasion to consider matters to be put to members at the 2006 Annual General to amend the company's constitution to make those changes necessary following the amendments made to the *Sugar Industry Act 1999* as amended. All committee members attended this meeting. A further committee consisting of Messrs KE De Lacy, AF Cristaudo, ID Glasson, M Hochen, PA Schembri and IH White met on one occasion to consider the composition and size of the Board set out in the Company's constitution. All committee members attended this meeting. This committee was also asked by the Board to oversee the implementation of the Board's decision to acquire a certain number of "G" class shares in Sugar Terminals Limited and otherwise review future relationships with Sugar Terminals Limited and make recommendations to the Board. This Committee met on two occasions during the reporting period, with all members present for both meetings, other than Mr ID Glasson who was overseas when one meeting was called and attended only one meeting. A remuneration committee consisting of Messrs KE De Lacy, M Hochen, Ms SAD Israel and Mrs MA Salvetti met on one occasion during the reporting period. All committee members attended this meeting.

Particulars of the qualifications and experience of each director of the company and the company secretary are set out on pages 5 to 7.

Indemnities and insurance premiums

The constitution provides that the company, to the extent permitted by law, must indemnify each person who is, or has been, a director or secretary of the company against any liability (resulting directly or indirectly from facts or circumstances relating to the person serving in that capacity in relation to the company):

- to any person (other than the company) which does not arise out of conduct involving the lack of good faith or conduct known to the person to be wrongful;
- for costs and expenses incurred by the person in defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or in connection with any application in relation to such proceedings in which the court grants relief to the person under the Corporations Law.

The constitution also provides that the board of directors may authorise the company to, and the company may, enter into any insurance policy for the benefit of any person who is, or has been, a director, secretary, auditor, employee or other officer of the company. The obligation of the company to indemnify persons as set out in the preceding paragraph is reduced to the extent that a person is entitled to an indemnity in respect of that liability under a contract of insurance.

The company has paid, or has agreed to pay, premiums in respect of contracts insuring against liability, the following persons, being persons who are or have been officers of the company: namely, any past, present or future director or officer of the company. The contracts prohibit disclosure of the extent of the cover and the amounts of the premium.

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Auditor's Independence Declaration to the Directors of Queensland Sugar Limited

In relation to our audit of the financial report of Queensland Sugar Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward

Partner

24 September 2007

Rounding

Unless otherwise shown in this annual report, amounts have been rounded to the nearest thousand dollars. Queensland Sugar Limited is a company of a kind referred in the Australian Securities Investments Commission Class Order 98/0100.

This report is signed for and on behalf of the directors in accordance with a resolution of the board of directors.

KE De Lacy AM
Chairman
24 September 2007

Ian White
Chief Executive

GLOSSARY OF TERMS

AUD

Australian dollar

Discretionary Pool Price

The Discretionary Pool Price is the average price per tonne IPS paid to mill owners for raw sugar produced in a given season and placed in this pool. The individual price paid to each milling company is calculated in accordance with purchase contracts entered into with QSL and is inclusive of sales premiums, results from sugar price and AUD/USD foreign exchange exposure management and is net of all costs.

EU

European Union

NYBOT

The New York Board of Trade, including the Coffee, Sugar and Cocoa Exchange, was acquired by the Intercontinental Exchange (NYSE: ICE), operates global commodity and financial products marketplaces it acquired in 2006. A number of agricultural commodity, financial index, currency futures and options contracts trade on the ICE including the ICE Futures US No 11 Raw Sugar Contract and No.14 US Domestic Raw Sugar Contract.

IPS

International Pol Scale. The international pol premium scale is a price adjustment scale, described in the Rules of the Sugar Association of London. It defines the incremental price premiums and penalties applied to sugar relative to 96 degrees polarisation.

NY11

ICE Futures US No 11 Raw Sugar Contract is traded on the ICE (prior to 1 September this was referred to as the NYBOT NY11). The contract is a deliverable futures contract with deliveries accepted from 29 sugar producing countries throughout the world. The contract is recognised as a benchmark for world raw sugar prices.

NY14

ICE Futures US No.14 US Domestic Raw Sugar Contract (prior to 1 September this was referred to as the NYBOT NY14). The contract is a deliverable futures contract which calls for delivery of cane sugar produced in the US. The contract is recognised as a benchmark for US CIF (cost, insurance & freight) domestic raw sugar prices.

Polarisation (pol)

The sucrose content of sugar. Sugar of 98 degrees pol would contain about 98 percent sucrose.

QSL's market indicator price

QSL's market indicator price is the weekly weighted average NY11 contract price beginning six months prior to expiry, for the contract months of July, October, March, and May brought to Australian dollars using the weekly hedge settlement rate and adjusted for handling and storage costs, and the benefit of the US quota.

STL

Sugar Terminals Limited

Tonnes

In this report, the use of 'tonnes' refers to metric tons actual or physical tonnes of raw sugar. This is sometimes referred to in the international sugar trade as tonnes tel quel. This definition will apply unless otherwise stated.

USD

United States dollar

WTO

World Trade Organisation