

# CSR Sugar

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## SUGAR MARKET OUTLOOK PRESENTATION January 2006

Presentation compiled with the assistance of Czarnikow Sugar.

For further information on the global sugar industry, please refer to the Czarnikow website [www.czarnikow.com](http://www.czarnikow.com).



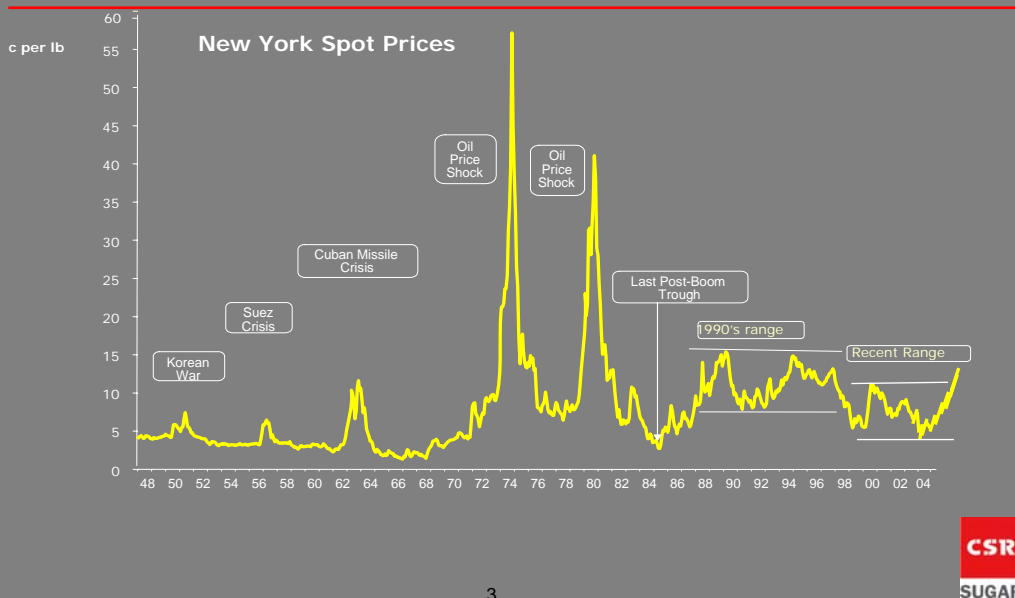
## Sugar Market Outlook

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- Accelerating sugar price – a new dynamic in the market, or just another blip?
- What are the implications for the market and the Australian industry?



## Historical Price Context



## What has driven the recent change?

### 1. Three fundamentals:

- Reform in the EU
- Ethanol: the new demand dynamic
- Underinvestment in production outside Brazil

### 2. Short term variables:

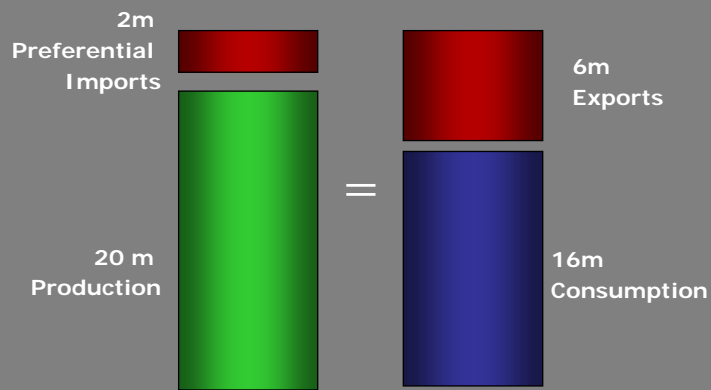
- Poor crops in Thailand and India
- Smaller than expected growth in Brazil in 2005
- US import demand due to hurricane impact on crops
- Speculative interest, and currency factors

# Reform in the EU



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# The Old EU Sugar Regime

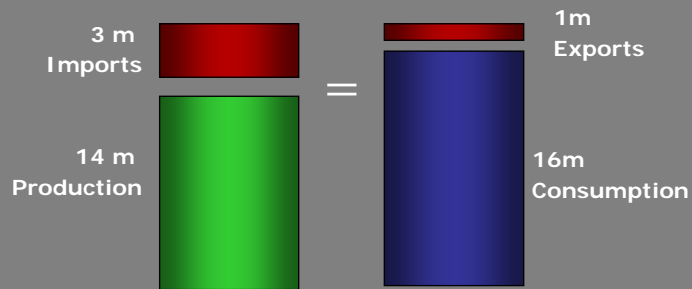


Excess production exported



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## The New EU Regime

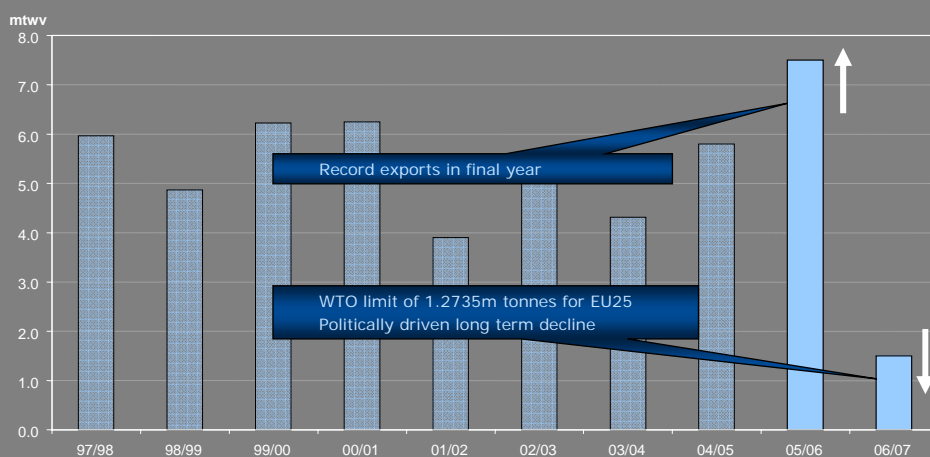


Excess production retained in Europe



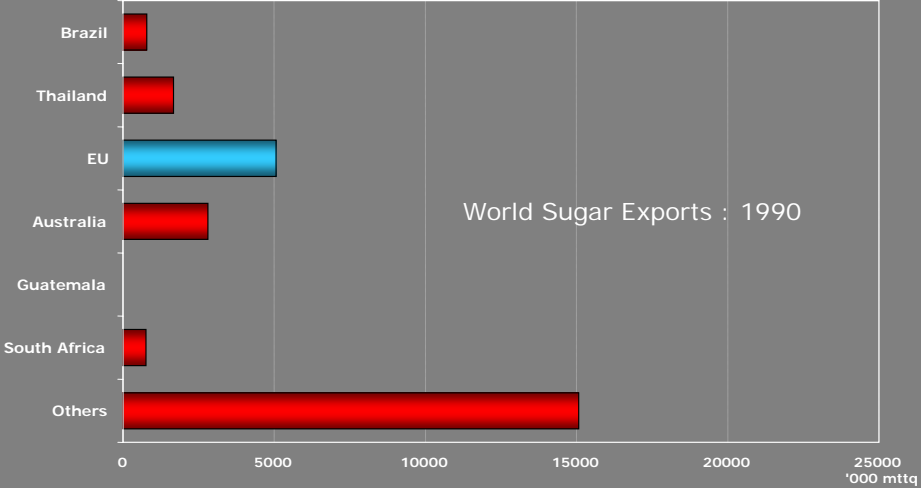
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## EU Exports



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# EU Exports in a Global Context

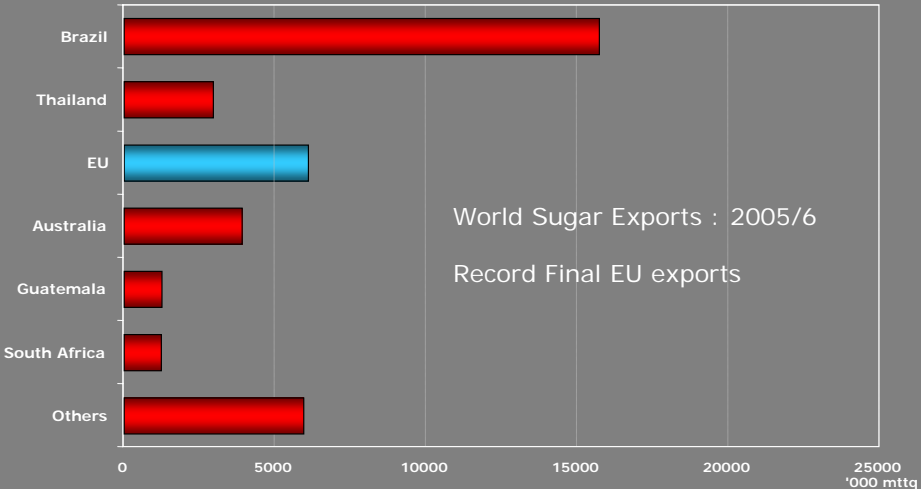


Trade estimated: 26m tonnes



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# EU Exports in a Global Context

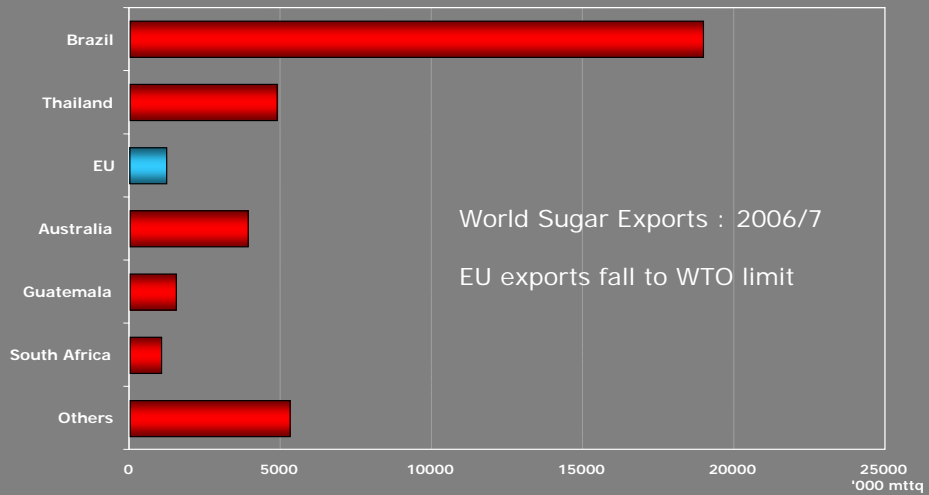


Trade estimated: 40m tonnes



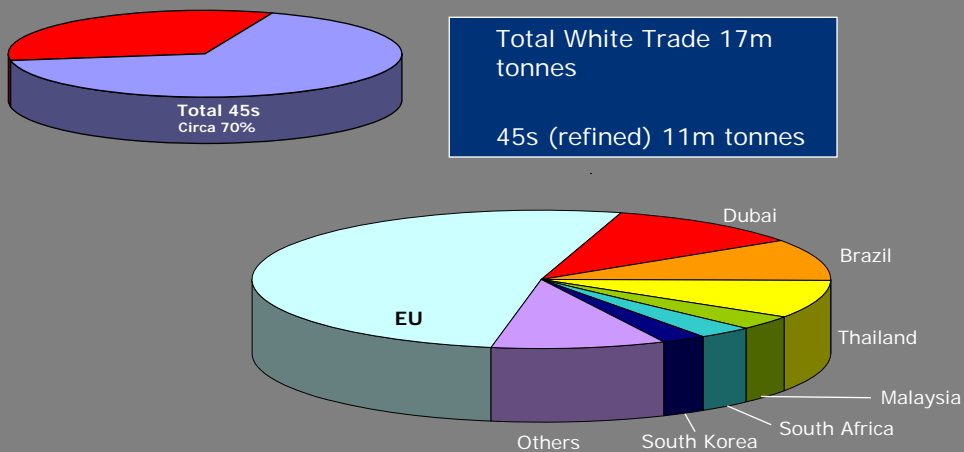
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## EU Exports in a Global Context



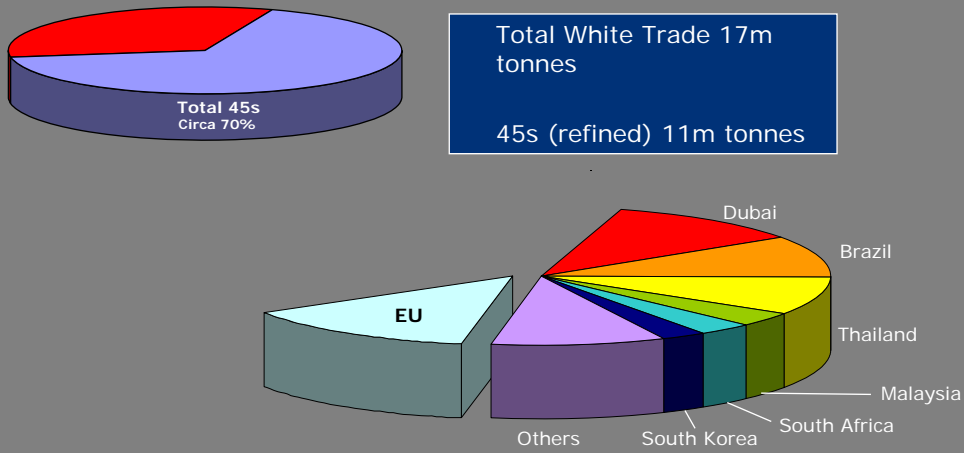
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## Structure of the White Sugar Market



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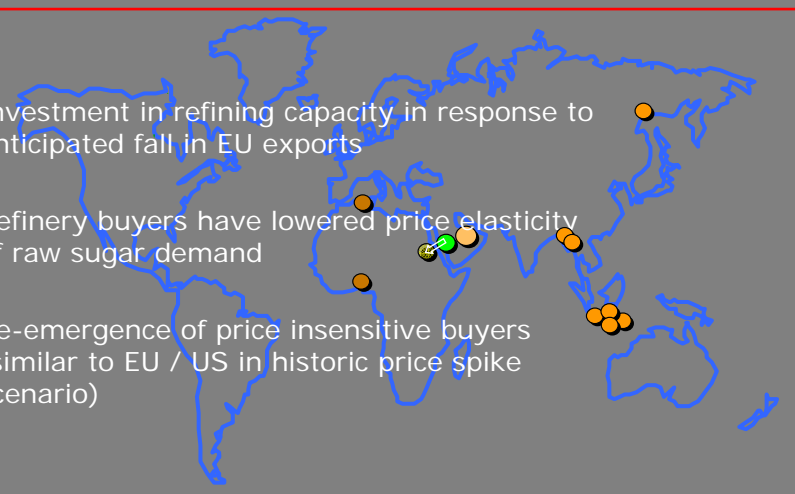
## Structure of the White Sugar Market



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## Investment in Refining Capacity

- Investment in refining capacity in response to anticipated fall in EU exports
- Refinery buyers have lowered price elasticity of raw sugar demand
- Re-emergence of price insensitive buyers (similar to EU / US in historic price spike scenario)



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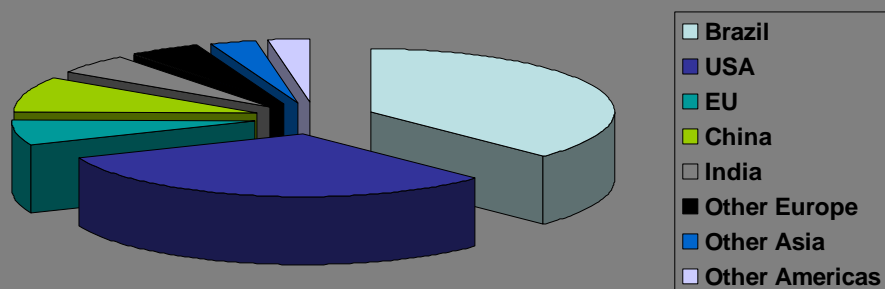
# Ethanol

## The new demand dynamic

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## World Ethanol Production



World Production 38 billion litres  
(Source: FO Licht)

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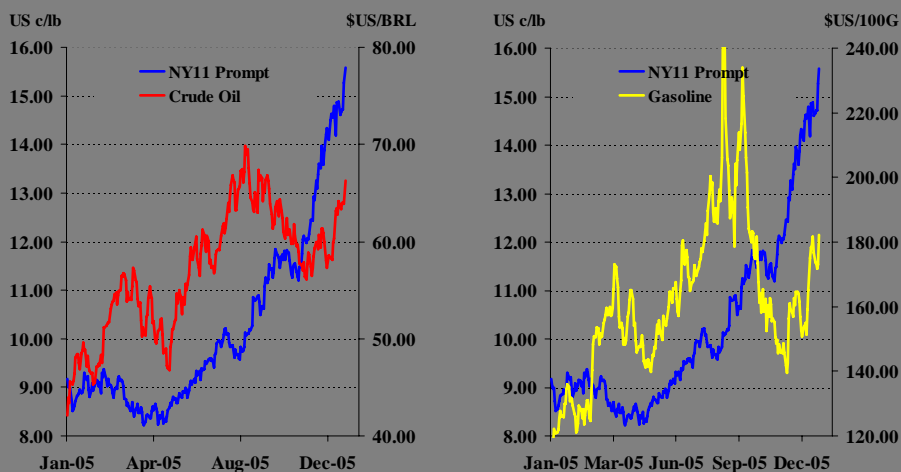
## Interest in Fuel Ethanol is strengthening on the back of strong oil prices

- Flex fuel cars are driving demand growth in Brazil
- US corn belt ethanol production is growing apace
- UK renewable fuels policy could support consumption of 1.5bln litres per annum by 2012
- Japan is talking about imports to fund a fuel ethanol policy, but still has reservations about relying on Brazil as a single source supplier
- India already has a substantial ethanol industry, and is adopting an E5 policy, to soak up local surplus molasses
- Thailand has developed a draft fuel ethanol policy, but government is reluctant to implement unless it is price competitive with gasoline



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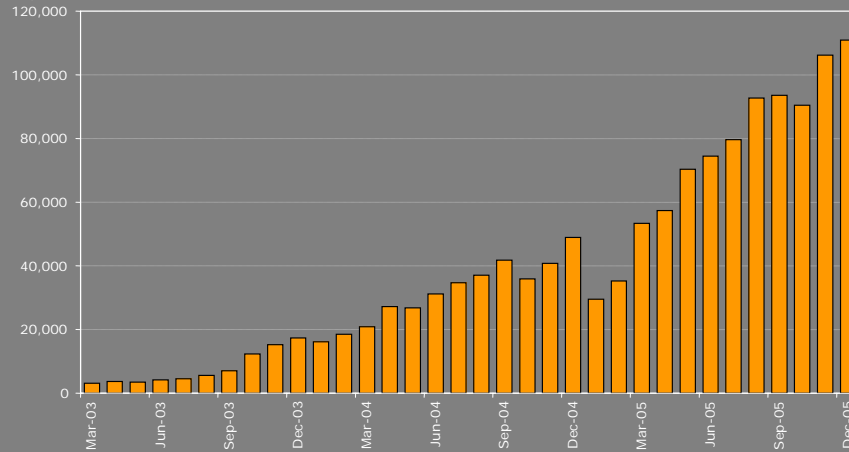
## Could sugar become an energy commodity?



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## Monthly Sales of Flex-fuel Cars

monthly vehicle sales

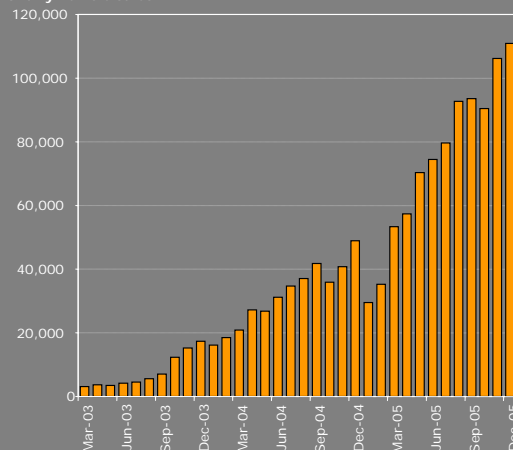


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## Monthly Sales of Flex-fuel Cars

- 1.5m FFVs will be on the road by the start of the new crop.
- By end 2010 we forecast this could rise to 7.6m – around 30% of the fleet.
- Potentially 22 bln litres of domestic demand by 09/10.

monthly vehicle sales



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## Ethanol market an important modifier of sugar prices

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- Ethanol returns in Brazil linked to sugar prices
- Flex fuel cars deliver a genuinely elastic market for the Brazilian sugar industry
- Most fuel ethanol programs are domestically oriented, and based on the most economic local feedstock:
  - USA    Corn based
  - Brazil    Sugar based
  - India    Molasses based
- Global trading in fuel ethanol remains small, but could grow rapidly if oil prices continue to climb

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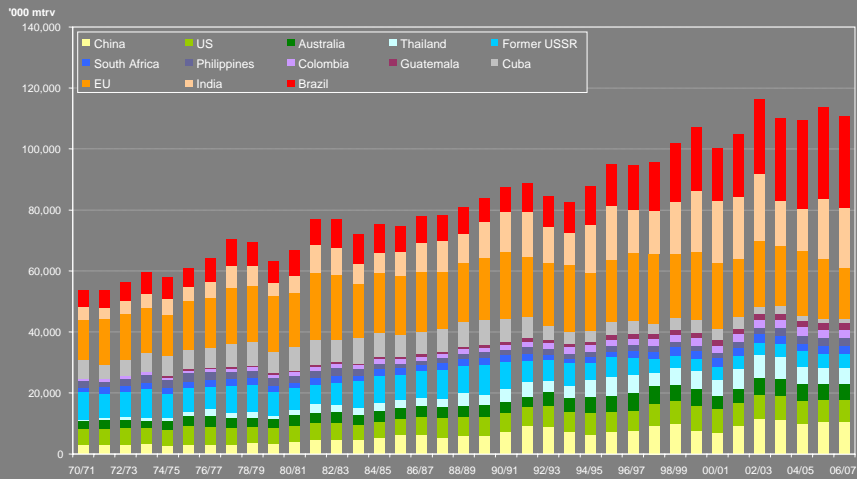


## Under-investment outside Brazil

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## Global Production: Key Players



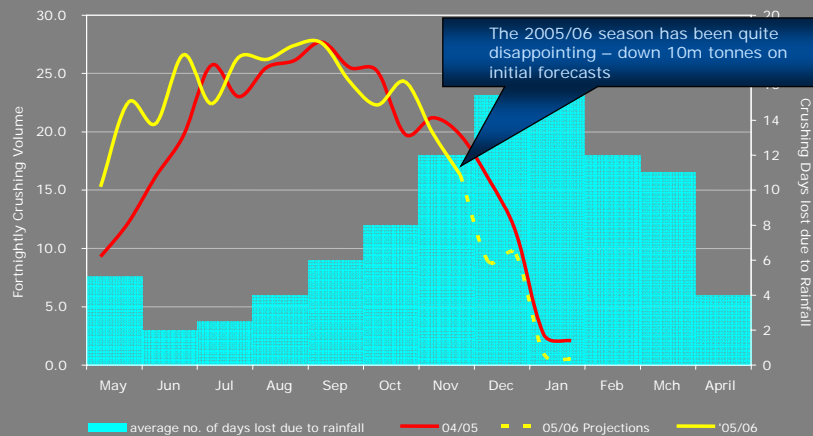
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## Short term variables



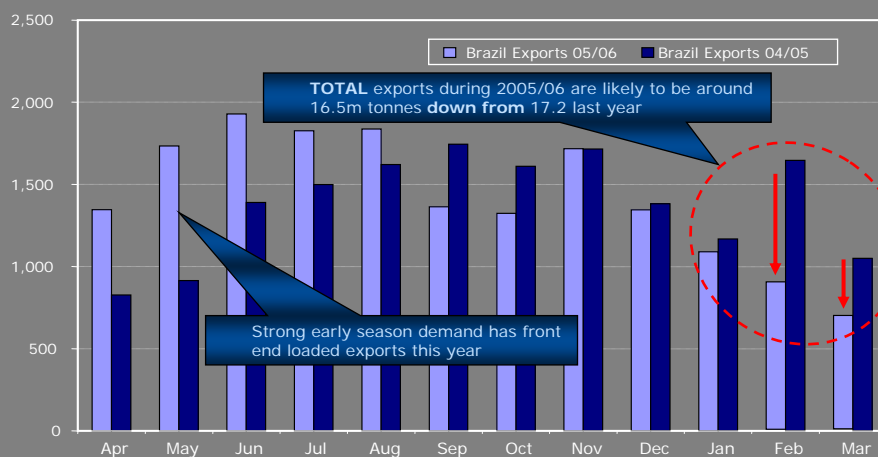
## CS Brazil Crushing Patterns



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## ... less sugar for export during Q1



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## A tight Brazilian Ethanol Balance...

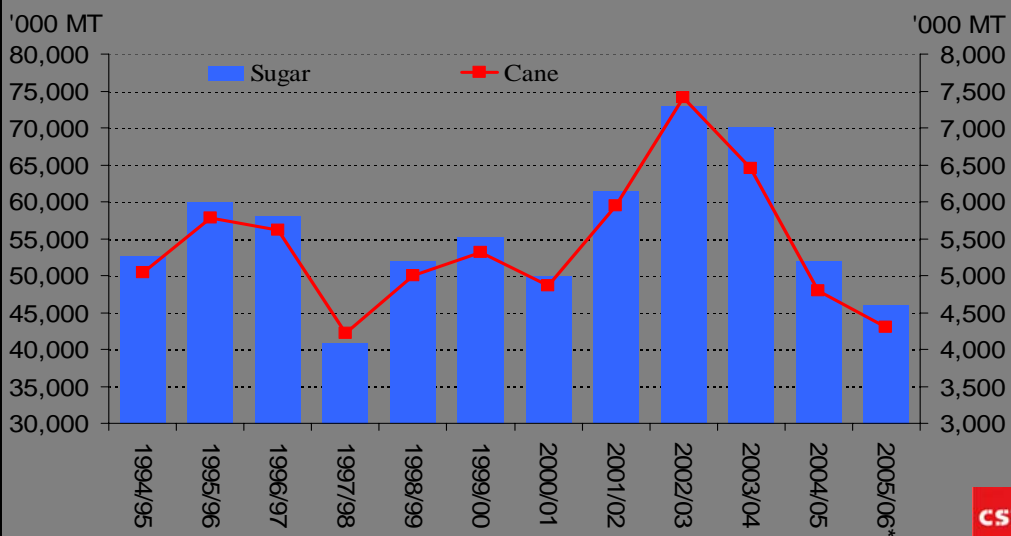
	CS	NNE (May/Apr)	Brazil (May/Apr)
Stocks 30 April, 2004	1,861	570	2,431
<b>2004/05 Crop</b>			
Production	13,593	1,803	15,396
Fuel Consumption	11,340	1,440	12,780
Exports	1,781	602	2,383
Other Uses	860	90	950
Transferences	250	-250	0
Stocks 30 April, 2005	1,223	491	1,714
<b>2005/06 Crop</b>			
Production	14,470	1,553	16,023
Fuel Consumption	11,990	1,485	13,475
Exports	2,050	450	2,500
Other Uses	890	92	982
Transferences	430	-430	0
Stocks Forecast 30 April, 2006	333	447	780

Stocks will be very low at the end of the season given monthly demand of over 1bln litres



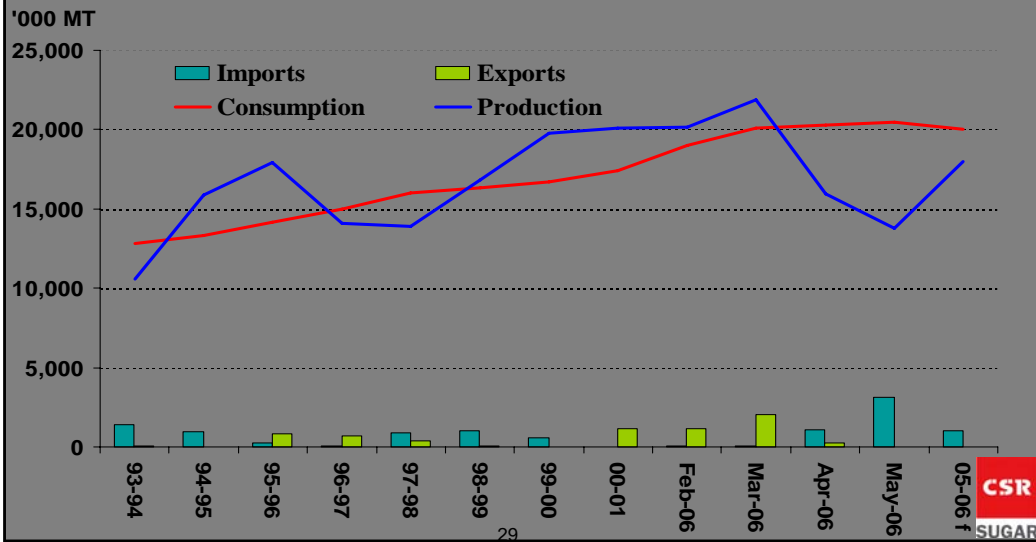
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## Thai Sugar Production should recover

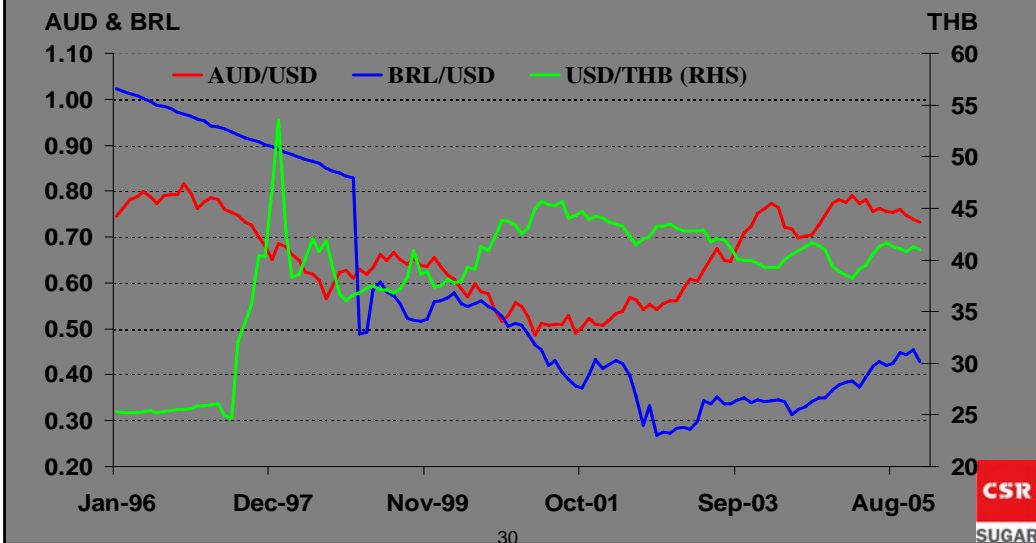


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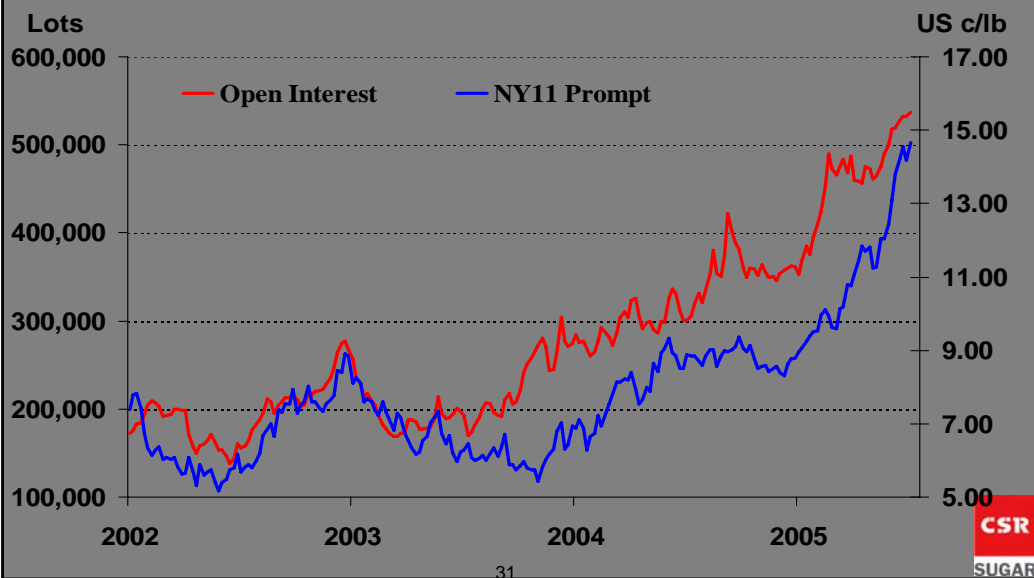
## Indian Sugar Balance already sharply improved



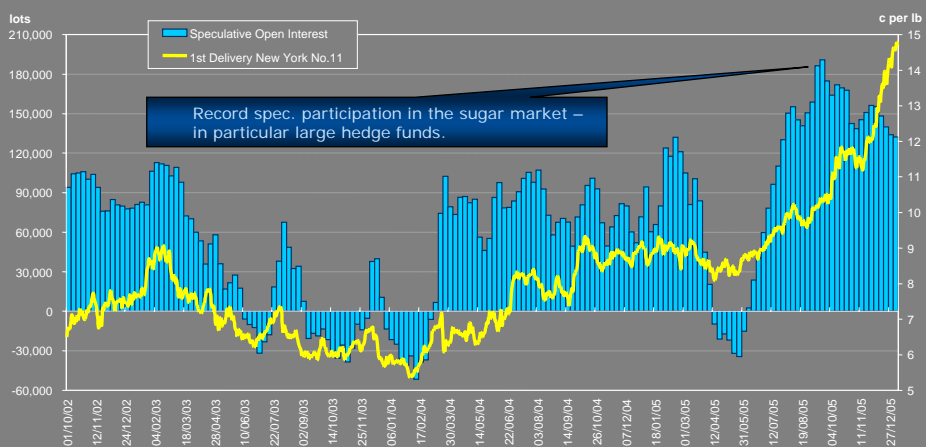
## Weaker US Currency has helped lift price



## Open Interest shows rapid growth



## Speculative interest a major component



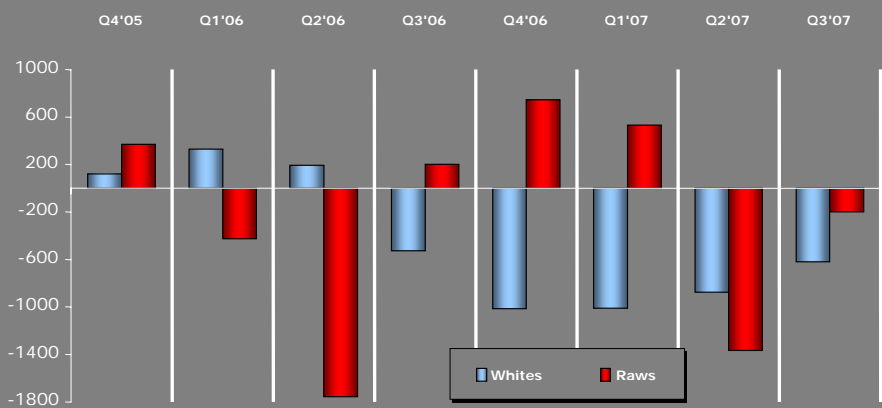


# Outlook & Implications

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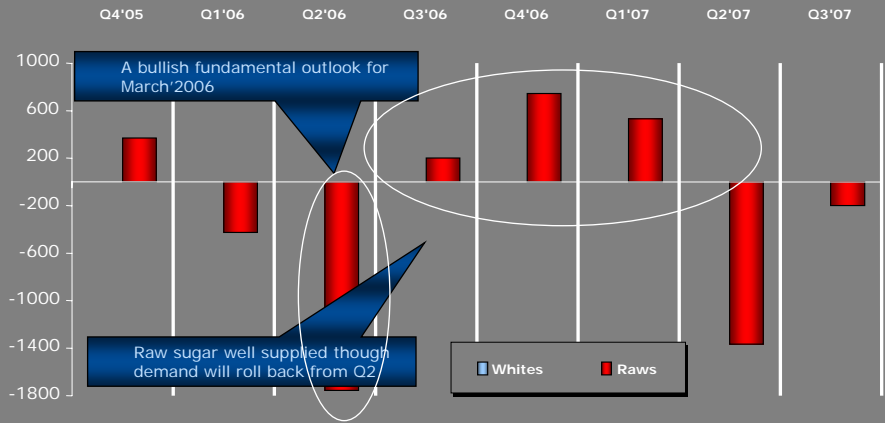
# Trade Flows



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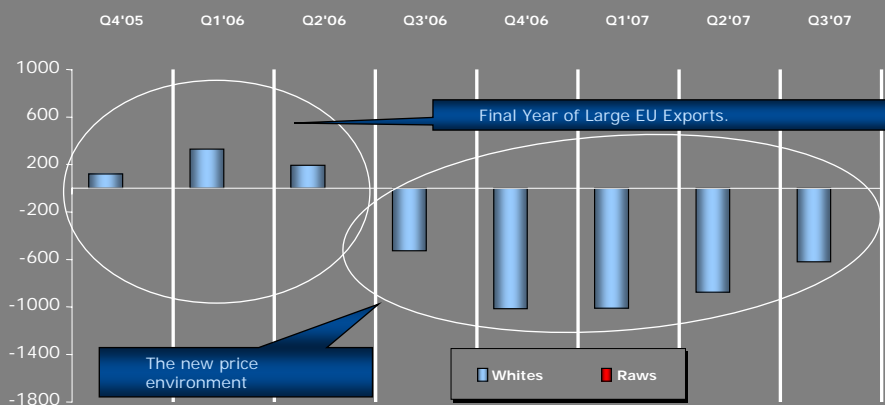
## Trade Flows



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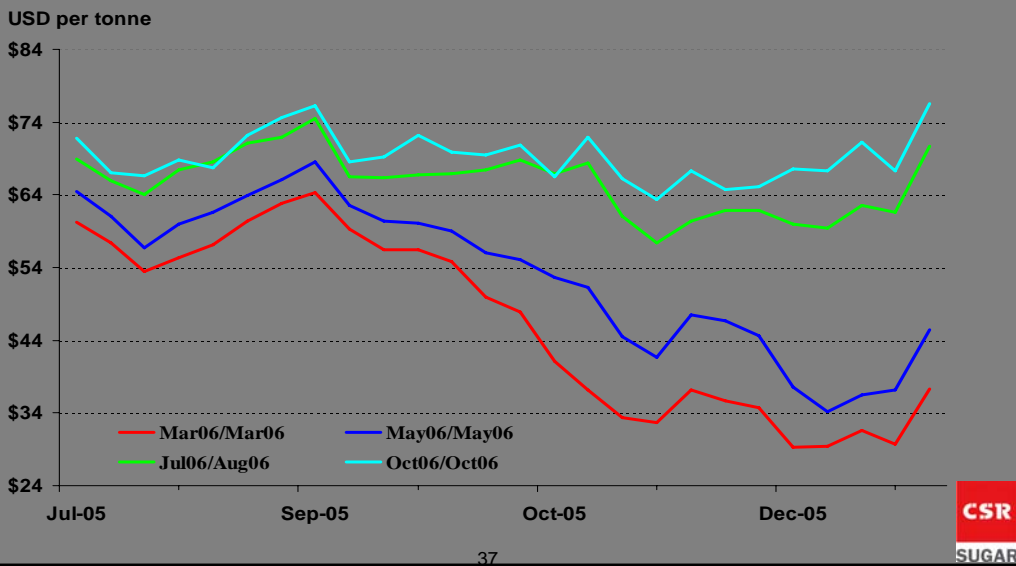
## Trade Flows



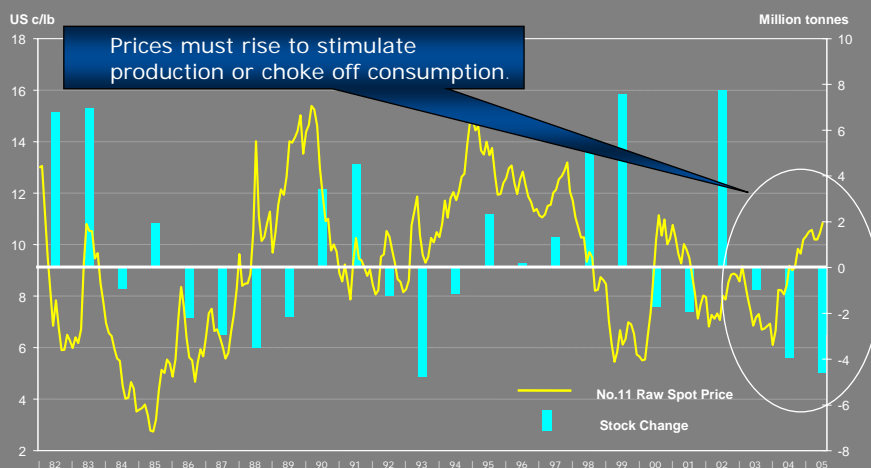
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## Raw/White Differentials



## World Stock Change vs. Price



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CSR SUGAR

## Production

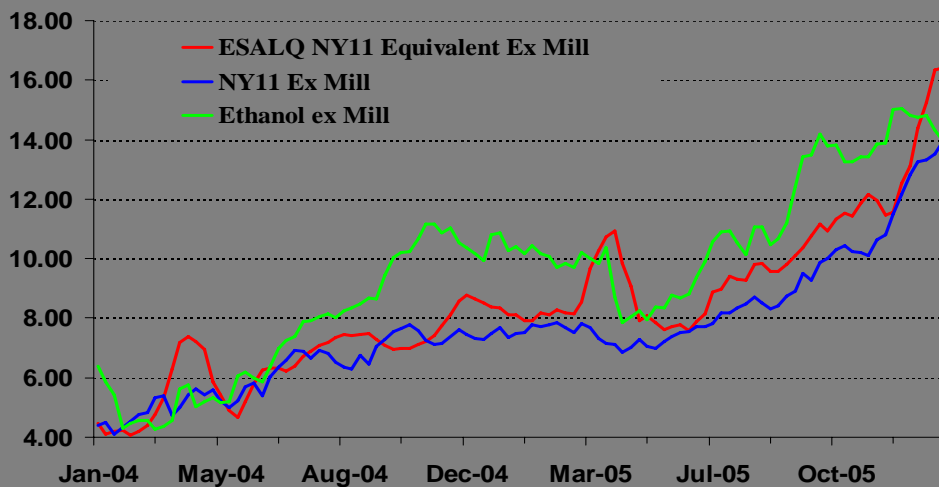
- Up to 30 new mills under construction in Brazil, 13 due to start this season, and another 50 expected by 2010
- Significant new cane production has at least 2 year lead time
- Changes in Europe make rapid expansion from beet unlikely
- Will the development pipeline be sufficient to meet projected demand?
- If not, is it likely that Brazil will switch cane from ethanol to sugar?



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## Brazilian Relative Returns

US c/lb



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## Consumption

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- At what price will sugar consumption shrink significantly?
- Domestic sugar prices are protected in many large markets, and are generally still well above world market.
- Will Brazil be prepared to significantly reduce its mandated ethanol blend ratio, and at what price level?

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## Main Inferences

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- Supply tightness for the next couple of years should support medium term price outlook
- Expanded growth opportunities in cane and milling where suitable farmland is available
- Longer term, increased volatility is likely, due to:
  - Increased geographic concentration
  - Greater dependence on cane rather than beet
  - Increased speculative activity in the market
  - Growth in the fuel ethanol market MAY mitigate these factors

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## This outlook has prompted some minor adjustment to our business strategies

- More emphasis on active hedging strategies to manage volatility
- Potential for entry to more high quality refined sugar markets, as EU whites exit
- Improved prospects for sensible, moderate scale milling expansion opportunities
- Maintain focus on reform and restructure in Queensland



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## 2005-06 CSR Milling Season wrap-up

Year ended March (YEM)	2006	2005	2004
Cane crushed (mt)	15.4	15.0	14.2
Raw sugar production (mt)	2.1	2.2	2.1
CCS% of sugarcane	14.0%	14.5%	14.7%
NY11 average US cents per lb	10.6 <sup>(1)</sup>	8.1	6.4
CSR final price (YEM)	NA	255	229

1. YEM06 price to date

- Final crop a record, due to excellent growing conditions in the Herbert
- Lower CCS% (sugar content) due to late finish of the season in December 2005
- Final sugar price not available but likely to be above A\$300 per tonne
- CSR has continued to hedge its future sugar price exposure
- Around 30% of YEM07-10 is now hedged at approximately A\$320 per tonne



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