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QUEENSLAND SUGAR

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Mr R Farquhar
General Manager
Sugar Terminals Limited
GPO Box 945
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Dear Dick

I refer to our correspondence regarding the sublease between STL and QSL for the bulk sugar terminal assets, which is due to terminate on 30 June 2008.

Background

Milling companies, representing the vast majority of sugar production that passes through the terminals, and both canegrower organisations wish for QSL to enter into a long-term sublease with STL to manage and operate the bulk sugar terminal facilities. This letter and the **attached** supporting material, proposes the terms on which QSL wishes to enter into such a sub-lease agreement.

QSL has significant expertise and experience to act as the lessee and operator of the sugar terminals on a long-term basis and to maintain and upgrade these assets on behalf of STL, to ensure they continue to meet the requirements of the sugar industry. There are considerable benefits to STL in entering into a sublease with QSL:

- Such a sublease will provide long-term revenue certainty for STL and its shareholders.
- QSL will bear the performance risk (throughput risk, credit and liquidity risk, etc).
- Where assets are not fully utilised, QSL will be best placed to actively seek non-sugar revenue opportunities for the STL terminal assets which are compatible with the flexible storage requirements of the sugar industry in order to be able to sell throughout the year; and
- In addition to its maintenance obligations under the sublease, QSL will continue to manage all aspects of capital expenditure on behalf of STL, including:
 - Planning future capital expenditure to meet the industry's marketing and operational requirements;
 - Procurement; and
 - Project management.

In making this proposal, QSL is mindful of the duty of STL directors to maximise value for the sugar terminal assets on behalf of their shareholders within the commercial constraints outlined below. QSL believes a long-term sublease provides greater revenue

certainty for STL and its shareholders, and provides sugar suppliers certainty of access to the sugar terminals at a world competitive price. It also lessens the risk to STL of any terminal asset being stranded.

Methodology

Consistent with regulatory principles, QSL has undertaken an assessment of the appropriate rental amount on the basis of our understanding of the methodology and considerations that would be applicable if these assets were to be regulated. We believe this methodology would be used by an Australian regulator to determine the maximum revenue under access arrangements for these essentially monopoly facilities.

In making this assessment, QSL has commissioned extensive work on the valuation of the sugar terminals it proposes to include in the sublease (ie all terminals except Brisbane), by GHD Australia Pty Ltd using the Optimised Replacement Cost (ORC) methodology and asset lives based on regulatory principles. This report is in draft form, with the methodology adopted by GHD, its optimised designs and valuation calculations currently being reviewed by Maunsell Australia Pty Ltd (Maunsells).

Origin Securities has derived the Depreciated Optimised Replacement Cost (DORC) for the terminal assets and prepared a tariff model, which computes the Maximum Allowable Revenue (MAR), based on regulatory principles and a variety of inputs including the draft GHD ORC data.

Initial Rental

QSL proposes a sublease with STL (excluding Brisbane terminal) for an initial term of 10 years with 3 x 5 year options. Rent for the 2008/09 is proposed at \$40 million escalating each year, and would be reset every 5 years. This figure will be confirmed once the draft GHD Valuation has been finalised.

Key Parameters

Key parameters which have been taken into account in determining the initial rental are:

- Nominal pre-tax WACC of 8.84%;
- QSL has calculated depreciation on the rolled forward asset base on the basis of average remaining lives across all assets classes as adopted in the Dalrymple Bay Coal Terminal regulatory decision;
- Reflecting the reality of regional economic circumstances, volume throughput for Bundaberg and Cairns is significantly below capacity for these two terminals and is expected to remain significantly below capacity. Accordingly, their design parameters have been optimised at lower volumes for the purposes of the DORC calculation. This has reduced the DORC value for Bundaberg and for Cairns; and
- QSL believes that it is appropriate to take into account commercial factors in respect of the Lucinda terminal. Because of its configuration and location, the ORC value derived for the terminal is inordinately high, relative to its capacity. Unlike the Bundaberg and Cairns terminals above, there is no design alternative to reduce this value through an optimisation process. As sugar could be more economically shipped via Townsville, building the terminal today would certainly not be commercially justified. However, QSL believes that it would be inequitable to deny STL any return for this asset and, accordingly, has impaired Lucinda's value to the extent required to make it cost competitive with the Townsville

alternative. This approach reflects the true value of Lucinda to the industry, should it move to a more competitive footing, and removes a commercial disincentive to utilise the terminal without such an impairment.

Attachments and Proposed Next Steps

I **attach** for your information proposed Summary Term Sheet in respect of a long term sublease of the sugar terminals (**Attachment 1**)

To progress the negotiation of the sublease in good faith, we propose the following process:

- subject to execution of a reliance letter acceptable to GHD, detailed supporting information will be provided to STL (**Attachment 2**). We expect to be able to provide this documentation around 14 December 2007; and
- Once you have received all of the above material, we would like to agree a timetable to conclude the matter, recognising both the timing imperatives with the current lease expiring in seven months, and the need to allow STL adequate time to conduct its own analysis. We have made arrangements to be available at any time to expedite negotiations.

Dick, I recognise that this process has so far taken some time, however I hope that the work undertaken provides a sound basis for a constructive dialogue between STL and QSL in relation to the renewal of the sublease that meets STL's need for an adequate return on its assets, and the industry's needs to have the sugar terminals operated as a competitive part of the supply chain.

I look forward to discussing this matter in detail with you in the near future.

Yours sincerely



IH White
Chief Executive

ATTACHMENT 1

Summary Sublease Term Sheet	
Initial Term	10 years
Options	3 x 5 year options (exercisable by Sub-lessee)
Leased Assets	<ul style="list-style-type: none">➤ Bundaberg➤ Cairns➤ Mackay➤ Lucinda➤ Mourilyan➤ Townsville
Rental	<p>Rent for the initial term and each option term will be calculated in accordance with a pre-agreed and documented methodology employing principles derived from the application of regulatory pricing principles, within a post-tax nominal pricing regime, to other transport and logistic assets, including by the QCA and the ACCC.</p> <p>These methodologies, and the key formulas underpinning the same be would be reflected in an Excel forecast model that would calculate the actual rental.</p> <p>Factors that would be taken into account would include the following:</p> <ul style="list-style-type: none">➤ A projected Weighted Average Cost of Capital (“WACC”) employing, inter alia, defined parameters and the prevailing 10 Year Commonwealth Bond Rate➤ Assigned “rolled-forward” asset values for each of the Leased Assets – with a base derivation of asset values for the first rental calculation being based on:<ul style="list-style-type: none">▪ Assigned asset lives for the Leased Assets;▪ Projected values for inflation across the relevant rental term;▪ Projections of capital expenditure, within the parameters established by the capital and maintenance master plan (Master Plan). <p>Employing these methodologies the net rental under the Sublease for 2008/09 is \$40,000,000 escalating each year thereafter. Outgoings will be to the account of the Sub-lessee.</p>

Rental Reset Periods	The Rental will be reset on each fifth anniversary following the Sub-Lease Commencement Date ("Rental Reset Date").
Dispute Resolution	<p>The parties will meet to, in good faith, review and agree the parameters for the reset of the Rental six months prior to the Rental Reset Date.</p> <p>If the parties are unable to agree the parameters for the recalculation of the Rental then the matter will be referred to an independent expert appointed by the President of Engineers Australia (Queensland Division).</p>
Capital Expenditure and Maintenance	<p>A Master Plan will be developed by the parties during the first year and reviewed regularly. It will address anticipated:</p> <ul style="list-style-type: none"> ➤ Economic environment; ➤ Capacity expansion; ➤ Refurbishment / replacements; ➤ Supply chain efficiencies. <p>Procedure and responsibilities for capital expenditure will be similar to the existing sublease except:</p> <ul style="list-style-type: none"> ➤ QSL has right to initiate capital expenditure, subject to STL's right to reject the proposal on reasonable grounds in a reasonable timeframe. STL must provide detailed reasons for rejection; ➤ STL will pay a commercial project management fee to QSL. In the event that QSL provides such services; ➤ Capital expenditure vs. repairs & maintenance decisions will be made with reference to accounting standards; ➤ Any differences in opinion in respect of capital expenditure and maintenance would ultimately be resolved by an independent expert appointed under the dispute resolution mechanism.
Other Terms and Conditions	Other terms and conditions will be similar to the existing sublease.

ATTACHMENT 2

Summary of Detailed Information to be Provided

- A copy of the draft GHD ORC Report;
- Details of the DORC and Tariff Models developed by Origin Securities;
- An explanation of methodology and key inputs underlying the analysis;
- A Sugar Industry Economic Analysis;
- A detailed proposed Sublease Terms Sheet;