SUGAR TERMINALS LIMITED
ABN 17 084 059 601

6 December, 2007

The Announcements Officer
National Stock Exchange of Australia Limited
Ground Floor
384 Hunter Street
NEWCASTLE NSW 2300

Dear Sir

Announcement relating to potential arrangements for the use of the bulk sugar terminals from 1 July 2008

I refer to the announcement on 29 November 2007, and now **enclose** a copy of Sugar Terminals Limited's response to the letter received from Queensland Sugar Limited.

Yours faithfully,

RB Farquhar
General Manager

encl.

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ABN 17 084 059 601

6 December 2007

Mr Ian White
Managing Director
Queensland Sugar Limited
GPO Box 891
BRISBANE QLD 4001

Dear Mr White

We acknowledge receipt of Queensland Sugar Limited's (***QSL's***) letter of 28 November 2007 regarding potential arrangements for the bulk sugar terminals owned by Sugar Terminals Limited (***STL***) from 1 July 2008.

Your letter binds together what are essentially two separate issues which should be distinguished:

1) proposals concerning the amount which QSL, on behalf of the industry, proposes to pay to STL on an annual basis for use of the terminals to escalate each year and be reset every 5 years; and

2) entry into an exclusive long term lease arrangement with QSL for sole use of the terminals by QSL from 1 July 2008.

Payment for Use of the Terminals

In your letter you state that 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". Your letter recognises that the terminals represent capital ultimately supplied by and at the risk of the STL shareholders and that STL shareholders are entitled to expect that STL should receive an appropriate payment for use of that capital by the industry.

We confirm STL intends to enter into discussions with QSL in good faith on an appropriate payment for use of the bulk sugar terminals by the industry. As the voluntary export marketer for 8 out of 10 export sugar milling companies (for the 2008 season at least), and therefore currently with a direct interest in the majority (but not all) of the sugar put through the terminals, it is clear (if that support continues after 2008) that QSL logically has a central role to play in these discussions.

As you know, we have been awaiting your proposal and accompanying information for some time. You have indicated you are not yet in a position to confirm the figure proposed by QSL, nor to supply the necessary supporting information, as the work to be done on your behalf by GHD and Maunsell is evidently incomplete.

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This, of course, means that STL is not currently in a position to respond in any detail on QSL's observations concerning the potential quantum of the payment for use of the terminals or on other aspects such as the annual escalations and periodic resets.

We appreciate that you intend to provide us with an opportunity to gain access to the detailed underlying work commissioned and undertaken by QSL (when available). STL will seek to take up that opportunity when offered, subject to the terms of access being appropriate and reasonable.

We request that you provide the proposed terms of access for immediate comment by STL. We also request access to the terms of reference and/or scope of work under which the detailed work is being undertaken.

Prior to you providing access to the detailed underlying work, STL is unable to determine how long its review process may take and when it will be in a position to provide a complete response to QSL on the appropriate payment for use of the terminals. At this point it seems unlikely this could be achieved before the end of February 2008 at the earliest.

STL is retaining Connell Wagner to provide specialist engineering and valuation advice to STL during the course of this process. As you are aware STL has appointed Gresham Advisory Partners as corporate adviser to the company. We expect that, during this process, QSL will provide our advisers with access to the sites, and information regarding the terminals, as and when reasonably requested.

Structural Arrangements

STL does not accept that a long term sub-leasing arrangement with QSL represents the best structure for use of the terminals by the industry moving forward.

A sub-lease arrangement contributes to the potential for there to be a lack of transparency or coherence around the relative responsibilities and accountabilities of STL and QSL in numerous respects, including in respect of capital expenditure, maintenance expenditure, appropriate handling charges, overall pricing and prioritisation of access for users (including third party access for other sugar industry groups). Put simply, it is difficult to rationalise why STL would effectively abdicate long term control over its assets to the current principal marketer of the sugar which passes through its terminals in preference to other available models.

STL considers that it would better serve the interests of STL shareholders and the industry as a whole if STL directly operated the terminals and provided storage and handling services to the industry on a transparent – and a sustainably fair - basis. It is inherently logical for STL as an asset owner to have direct and ongoing involvement in the operation of its assets and maximisation of their use and efficiency over time.

STL therefore wishes to discuss with QSL:

a) an appropriate basis on which QSL would transfer to STL the current operations function undertaken by QSL;

b) the processes for STL and QSL to interact on an ongoing basis to ensure QSL, as the primary marketer, retains the same flexibility and receives the same level of services to enable it to maximise the premiums received for its export sugar; and

c) the terms of a long term storage and handling agreement between STL and QSL in its capacity as marketer, and which would serve as the "industry standard". This agreement would provide the basis of long term security of access for QSL to the terminals and similar agreements would be entered into with other sugar industry groups requiring access to the terminals now or in the future.

STL does not accept that a model whereby STL owns and operates the terminals will result in higher costs for the industry either immediately or over the longer term.

STL would not seek to make additional revenue from its role as operator and would only seek to recover its operating costs, as QSL currently does, in addition to an appropriate payment for use of the terminal capital.

Further, the storage and handling agreement could be structured to incentivise STL to pursue operational efficiencies and to derive revenues from any surplus capacity at the terminals. Over time, we would expect this to yield benefits for the industry. There is also potential for handling charges to be structured on a more flexible basis, for example such that a fixed unit charge is levied resulting in STL bearing some volume risk.

STL would appreciate the opportunity of discussing an appropriate storage and handling arrangement with QSL and we believe these discussions can be advanced separately to our discussions on the appropriate aggregate payment for use of the terminal capital.

Way Forward

It is in our mutual interests that, as industry participants, we pursue arrangements for the terminals which are transparent, sustainable and flexible.

We encourage QSL to approach these discussions constructively and in the interests of the industry as a whole. We have the opportunity to address important broader structural questions and there is no reason to be constrained by previous arrangements in the course of our discussions.

We look forward to receiving details on the terms of access, your detailed proposal and further discussing with you the structural issues outlined above.

Yours sincerely

MD Brown
Chairman