Sugar Terminals Limited
Annual General Meeting 2013
Chairman's Address

Firstly let me talk about the company's financial results for the year ended 30 June 2013 and then some related matters.

Financial Result

The financial result for the year was a net profit after tax of $20.7 million compared with a net profit after tax for the previous year of $20.8 million, a decrease of $100k. The reduction in net profit is principally due to a net increase in depreciation of $600k, offset by a reduction in the net loss on disposal of plant and equipment of $500k (2012 included a net loss of $400k due to the write off of the Mackay shed 2 roof, which was replaced during that year).

We have budgeted for the current year's profit to be about $400k higher than last year, due principally to additional rent receivable under the existing Sublease to QSL and the new Sublease which is effective from 1 January 2014.

Dividends

The Company's policy is to pay as high a dividend as possible, having regard to the Company's cash position and the tests set out in section 254T of the Corporations Act. Dividends are usually paid bi-annually in March and September.

In accordance with this policy, the directors paid an interim dividend of 2.8 cents per share fully franked on 28 March 2013 and a final dividend of 3 cents per share fully franked on 30 September 2013, making a total distribution for the year of 5.8 cents per share, or $20.88 million.

Roof Replacement Program

Last year, I reported that the board had approved the replacement of the roof on shed No.2 at Mackay, as the first stage of a proposal presented to us by QSL to replace the roofs on 12 of the 15 sheds, at a cost of up to $100 million. As well as getting rid of the asbestos in the old roofs and eliminating the leaks which resulted from their general deterioration, the new roofs have been designed to a higher wind resistance standard, to improve their ability to withstand cyclones and major storms. The Mackay shed No.2 roof replacement was completed in September 2012 at a cost which was well below budget. During the year the board approved the replacement of the roof on shed No.3 at Mackay, and that project was completed in early September 2013, again at a cost which was below budget. As a result of our experience on the first two roofs, the cost estimate for the total project has been reduced to $75 – 80 million.

We expect to receive a proposal from QSL by December to replace the roofs on Lucinda sheds No.1 and 2. The overall roof replacement program will be completed over 10 – 12 years so as to limit any significant annual cash flow implications.
The replacement of terminal roofs is part of an ongoing major capital expenditure and maintenance program designed to keep the terminals in their highly efficient operating condition.

Queensland Sugar Sublease

The current Sublease agreement with QSL for our 6 BSTs expires on 31 December 2013. That Sublease provided a mechanism to determine rental for the 5 year period commencing on 1 January 2014. Due to a change in economic circumstances brought on by the GFC, that mechanism did not provide a satisfactory outcome, but the company has been able to negotiate a rental which directors believe is a good outcome in the current economic conditions for both the company and the sugar industry. The commencing annual rental of $44.86 million is an increase of 2.8% over the 2013 rental under the current Sublease and there will be annual increases of 2.5% in each year thereafter, with further increases dependent on the level of capital expenditure. Apart from some minor amendments, the other terms and conditions of the Sublease are unchanged. The Sublease document was executed by STL and QSL on 1 August 2013. The negotiation was conducted in a very cooperative spirit by both STL and QSL, reflecting the good working relationship between the 2 companies. Directors estimate the Sublease will support the payment of a dividend of 6 cents per share in 2014, increasing progressively to around 6.8 cents per share by the end of the 5 year term.

In Conclusion

I would like to thank my fellow Board members Andrew Cappello, Con Christofides, Shayne Rutherford and Drew Watson and our hard working General Manager, Richard Farquhar, for their contribution throughout what has been a very busy and productive year.

Stuart Gregory
Chairman
Brisbane
22 October 2013

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