Sugar Terminals Limited
Annual General Meeting 2016
Chairman's Address

The year ended 30 June 2016 was a particularly busy and challenging one for your company. In addition to our traditional role of managing the company's bulk sugar terminals, the Board focused on preparing the business for the changes to its operating environment expected after June 2017. My fellow directors and I appreciate that this is a pivotal time for STL. It is crucial for STL, and the industry at large, that our future business model caters for a more competitive, multi-user environment at each terminal.

Before speaking further on our future, let me first review our financial position and the status of our roof replacement program.

Financial Result
In the 2016 financial year, STL earned a net profit after tax of $23.4 million compared with a net profit after tax for the previous year of $22.9 million, an increase of $0.5 million (1.9%). The increase in net profit is principally due to an after tax increase in rent of $1.1 million partially offset by an increase in after tax

- depreciation expense of $0.3 million, due mainly to the roof replacement program, and
- advisory and related costs of $0.3 million, incurred to evaluate the potential impact of the future marketing arrangements on the terminal operations and to undertake a related strategic review of the business.

We have budgeted for the current year's profit to be slightly higher than last year, with additional rent receivable under the QSL Sublease expected to be at least partially offset by increasing depreciation and the costs of finalising and then implementing the future terminal operating model.

Dividends
The Company's policy now, and for the foreseeable future, 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 paid bi-annually in March and September.

In accordance with this policy, the directors paid an interim dividend of 3.1 cents per share fully franked on 31 March 2016 and a final dividend of 3.1 cents per share fully franked on 30 September 2016, making a total distribution of 6.2 cents per share, or $22.3 million.

At the Company's share price earlier this week of 85 cents, the 2016 dividend represents an 7.3% p.a. return, and with the benefit of franking credits, the equivalent of an 10.4% p.a. return.

Roof Replacement Program
I'm pleased to report that our roof replacement program continued according to schedule and within budget this year. By early November, we expect to be at the "half-way mark", with 6 of the 12 roofs replaced, including at Mourilyan, and approximately 40% of the program's $90 million cost estimate expended by that time.

This is a significant program for STL, involving the replacement of 12 of our 15 terminal shed roofs, most of which are now over 50 years old. In keeping with our focus on prudent fiscal management, the program is being undertaken over a 10-12 year period, so as to limit any significant impact on annual cash flows and dividends.

Queensland Sugar Sublease
The current Sublease agreement with QSL operated satisfactorily during the year, with QSL operating our 6 bulk sugar terminals and being charged commercial rent for the use of the facilities.

However, given the decision of Wilmar Sugar Australia Ltd, MSF Sugar Limited and Tully Sugar Limited to market their export sugar independently from July 2017, STL has been working closely and collaboratively with QSL, under confidentiality, to develop a future business model for STL that operates in the best interests of our shareholders and all industry participants going forward.

Future Terminal Operating Model
In anticipation of the fundamental changes to STL's operating environment after June 2017, the Board has undertaken a strategic review of our business and an extensive review of possible future operating models over the last 12 months. As part of our deliberations, we have actively sought the views of our shareholders and other key industry stakeholders across Queensland. We have also engaged highly regarded industry and legal advisors to identify and evaluate a range of structural options.

It has been a challenging process and I'm pleased to report that the majority of our stakeholders – including QSL - agree that our resulting business model should be consistent with the following guiding principles:

- STL must create an open access regime;
- It must be equitable, conflict-free and transparent;
- Our pricing and access terms must be fair and compliant;
- We must provide a competitive offering to users, with excellent service and cost control;
- We must preserve and enhance the value of our assets; and
- We must be able to respond to threats and opportunities as they arise.

Our discussions with QSL and other key stakeholders have been wide-ranging and have considered an extensive range of options. Although there is still work to do, I am very happy to be able to say that our commercial-in-confidence discussions with QSL have been constructive throughout the process, that our relationship remains strong and that we are both committed to a smooth transition in July 2017.

We understand that time is of the essence and that our terminal users and the industry needs certainty. Discussions with QSL are continuing in earnest and we expect to be in a position to disclose more details in the near future.

Board appointments
In preparation for the finally determined future operating model, we are exploring the option of increasing the number of STL's independent directors by 1 or 2 in the near term to ensure our board has the skills and experience to manage our business, our crucial infrastructure assets, and ensure we achieve the best outcomes for our shareholders. These additional directors would be independent directors, complementing the 2 Grower Directors and 2 Miller Directors.

While initial work is underway on the recruitment of these additional directors, we recognise the need to provide more details to shareholders and seek your approval to increase the director fee pool prior to their appointment. We will be better positioned to elaborate on this initiative once the future operating model has been agreed and communicated.

Before I make my closing remarks, I would like to comment on the nomination and expected appointment of Mr Ian Davies, as a second Miller Director from Wilmar. In recent weeks, there has been considerable industry discussion about his nomination and expected appointment and the professionalism of STL directors in general.

Wilmar is the largest M Class shareholder of STL, with more than 65 million shares or 50.4% of total M Class shares. Given that its M Class shareholding is greater than 50%, Wilmar can under our Constitution appoint two miller directors. It has had this ability for several years, but has not elected to do so until now.

The appointment of Mr Davies does not however hand control of the STL board to Wilmar. STL has always had two grower elected directors and two miller elected directors, representing the interests of our two shareholder groups, as well as an independent Chairman. All directors are legally required to act in the best interests of STL and we openly discuss these obligations as a Board.

In my time as Chairman of STL, all STL directors have always conducted themselves professionally and in accordance with the requirements of its Constitution, Corporate Governance Framework and the Corporations Law and I confidently expect that this will not change.

I am proud of the way the STL Board has worked together in the interests of all of its shareholders, and its stakeholders, since the Company's inception, including over the last 12 months.

Closing remarks
This is a challenging time for the industry but it is also a great opportunity.

Our industry can't afford to be internally focused. We must strengthen our position in the world sugar market to secure the future of all industry participants.

In closing, I would like to thank my fellow Board members Andrew Cappello, Con Christofides, Shayne Rutherford and Drew Watson who have willingly given their time, experience and commercial skills during a year which has required much more of each than when our forward plans had only one export marketer. I would also like to give special recognition to Peter Trimble, who commenced in the General Manager's role in July last year and who has performed admirably during what has been a very demanding year.

Stuart Gregory
Chairman
Brisbane
20 October 2016

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