



16 March 2016

UPDATE ON THE IMPACT OF SUGAR INDUSTRY RESTRUCTURE ON SUGAR TERMINALS LIMITED

The Company has prepared a presentation for shareholders that provides an update on its process for considering the impact on STL of recent changes to the sugar industry.

The presentation and accompanying notes are included with this notice.

Any shareholder or stakeholder group who wishes to receive a personal update by our General Manager and Company Secretary, Mr Peter Trimble, should contact our offices.

A handwritten signature in black ink, appearing to read 'Stuart C Gregory', is written over a horizontal line.

Stuart C Gregory
Chairman

Update on the Impact of Industry Restructure on Sugar Terminals



16th March 2016

Sugar Terminals Limited

Introduction

- This is the first update for our shareholders (outside our interim or annual results) at this pivotal time for the industry and for STL
- As a listed public company, we have lodged a copy of this presentation on the National Stock Exchange and our website
- We are offering to provide this update to any shareholder or stakeholder groups who would prefer a personal briefing

Taking a fresh look

- This is a challenging time for the industry but it is also a great opportunity
- At STL, we have taken this opportunity to take a fresh look at our role in the industry
- Our review is still underway, but in the interests of open communication, we want to share with you the journey we've been on

Key drivers for change

1. Three of Queensland's largest millers will market export sugar independently from July 2017
2. "Grower Choice" legislated through the Sugar Industry (Real Choice in Marketing) Amendment Act 2015
3. QSL's industry positioning may change following constitutional amendments in Dec 2015

RESULT: Bulk sugar terminals must cater for a multi-user and more dynamic, competitive environment



Outline

This update covers:

- what we see as the key drivers for change
- explain our objectives and guiding principles and
- explain the process we are going through, where we are and next steps

Queensland's sugar industry is driving change

STL's operating environment will change fundamentally after June 2017. This is due to:

1. The decision of Wilmar Sugar Australia Limited, MSF Sugar Limited and Tully Sugar Limited to market their export sugar independently of QSL from July 2017 and
2. "Grower Choice" which was recently legislated through the Sugar Industry (Real Choice in Marketing) Amendment Act 2015.

QSL's constitutional amendments in December 2015 may also change its industry positioning, following the decision to introduce industry directors aligned to those who continue to use QSL as a marketer. Although the amendments were recently overturned in court, the ultimate outcome is not yet clear.

As a result...

STL's bulk sugar terminals must cater for:

- A multi-user environment with at least 25% of raw sugar expected to be contracted outside QSL
- A more dynamic, competitive environment, with the likelihood of new market entrants

The grains industry experience is informative

- While it's not a perfect analogy, it demonstrates that outcomes can be different from expectations
- In the case of the grains industry, deregulation of the export market unexpectedly led to new entrants building alternative storage capacity
- It is possible that the changes to the sugar industry could deliver similarly unexpected outcomes

Our overarching objectives

- Review the impact of the new operating environment on our operation
- Determine how to respond in the best interests of:
 - STL shareholders
 - terminal users
 - other stakeholders



STL's Board has two overarching objectives:

1. Look at the impacts of the new operating environment on STL's business operations through a strategic review
2. Decide the best way to move forward

Importantly, the way we move forward will be based on what is best for our shareholders, terminal users and other stakeholders

Our guiding principles

- Establish and maintain an “open access” regime to all users that is equitable, free of conflict and transparent
- Ensure equitable and compliant pricing and access terms
- Provide users a competitive offering through excellent service and tight control of operating costs
- Preserve and enhance the value of our assets over their life-cycle
- Respond to potential opportunities and threats



STL is committed to optimising shareholder value and outcomes for terminal users

To guide our review of the new operating environment, the Board established the following guiding principles:

- **Open access for all users** (equitable, conflict-free and transparent)
- **Equitable and compliant pricing and access terms**
- **A competitive offering** (excellent service and cost control)
- **Preserve our assets for the long term** (capex and maintenance over the asset life-cycle)
- **Responsiveness** to opportunities (eg non sugar users) and threats (eg competition, stranded assets and regulation)

Evaluating structural options

STL is identifying and evaluating structural options to optimise outcomes in the new operating environment by:

- Listening to industry stakeholders
- Working with legal and industry advisers
- Reviewing our internal skills and governance model
- Commercial-in-confidence discussions with key stakeholders



A 9 month review process

- In mid 2015, the STL Board engaged advisers with industry knowledge and experience to identify and evaluate a range of structural options for STL's business model
- This was focused on delivering optimal outcomes for STL post June 2017

An iterative process

The process to date has involved:

- Ongoing discussions with a range of industry stakeholders
- Assistance from legal and industry advisers to canvas all reasonably conceivable structural options and evaluate those most closely aligned to the Board's guiding principles
- With external assistance, critically assess our capabilities and governance model

We will continue discussions with key stakeholders (particularly QSL as the terminal operator) to review preliminary outcomes of the process so far

Status and next steps

Commercial-in-confidence discussions continuing

- Users seeking clarity about future operating structure, pricing and access
- Some users have:
 - requested Storage & Handling Agreements post June 2017
 - raised concerns over the bulk storage terminals (BST) being operated by an entity which is in competition with other BST users
 - expressed concern about escalation of terminal operating costs

STL recognises the need to move as quickly as possible

- Aiming for any changes to the BST operating structure to be implemented in time for the 2017 season
- Planning for broader industry stakeholder and shareholder communication
- Timing is subject to completing the review process and discussions with key stakeholders



Sugar Terminals Limited

So, where are we now?

- STL has begun preparing a discussion paper that sets out its preferred operating model.
- Before finalising and releasing it for public review, we will continue commercial-in-confidence discussions with key stakeholders, such as QSL
- It's no surprise that users want clarity about our future structure, pricing and access
- It's probably also no surprise that there are divergent views on how STL should proceed
- Having said that, we expect that there will be a lot of common ground and that by focusing on what is in the best interests of the industry and our shareholders, we'll deliver a sensible solution

And where to next?

- We understand that we need to move quickly – with any changes preferably in place for the 2017 season, being the start of the new multi-user operating environment
- We also understand the need to communicate more broadly and we're planning for that
- The timing for a decision is obviously subject to completing our review and also concluding discussions with our key stakeholders

It is too early to give a timeframe for the decision, but STL will keep the industry in the loop and provide further updates as we go along.