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**Sugar Terminals Limited  
Annual General Meeting 2015  
Chairman's Address**

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Firstly let me talk about the company's financial results for the year ended 30 June 2015 and then some other important matters.

### **Financial Result**

The financial result for the year was a net profit after tax of \$22.9 million compared with a net profit after tax for the previous year of \$21.6 million, an increase of \$1.3 million (6.4%). The increase in net profit is principally due to an after tax increase in rent of \$1.1 million and a marginal decrease in operating expenses.

We have budgeted for the current year's profit to be about \$900k higher than last year, again due primarily to additional rent receivable under the QSL Sublease.

### **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 3.1 cents per share fully franked on 31 March 2015 and a final dividend of 3.1 cents per share fully franked on 30 September 2015, making a total distribution of 6.2 cents per share, or \$22.3 million.

At the Company's current share price of 75 cents, the 2015 dividend represents an 8.3% return, and with the benefit of franking credits, the equivalent of an 11.8% return.

### **Roof Replacement Program**

Our major capex project currently is the continuance of the program to replace 12 of the 15 BST storage shed roofs, some of which are now over 50 years old. The program is being undertaken over a 10-12 year period, so as to limit any significant impact on annual cash flows and dividends.

In previous years, I have reported that the board has approved the replacement of roofs on sheds 2 and 3 at Mackay, and Sheds 1 and 2 at Lucinda and each has been completed within budget.

During this year, the board approved a proposal to replace the roof on shed 2 in Cairns in 2015 and the Mourilyan shed roof in 2016. The Cairns project was completed earlier this month and final costs are expected to be below budget.

Approximately 30% of the program's latest total cost estimate of \$90 million has been incurred in completing the first 5 roof replacements.

### **Queensland Sugar Sublease**

The current Sublease agreement with QSL, which became effective on 1 January 2014, is operating satisfactorily and our relationship with QSL remains strong. Directors have increased the dividend in 2015 to 6.2 cents from 6 cents in the previous year, and estimate that the annual rental increases of 2.5% should support annual dividends increasing progressively to around 6.8 cents per share by the end of the 5 year term.

### **Sugar Marketing**

The full impact on the Queensland sugar industry and on STL of the decision of Wilmar Sugar Australia Ltd, MSF Sugar Limited and Tully Sugar Limited to market their export sugar independently of QSL is still to be determined.

In response, there has been a very public and wide ranging discussion in the industry by grower organisations and the sugar milling sector with a range of views as to the future marketing arrangements that might prevail in the Queensland industry. In addition, there has been significant political activity during the year.

As at the date of this report, the outcome of the industry debate and the political initiatives remains unresolved. However, in order to ensure that we keep up to date with the potential changes to the export marketing and shipping of sugar through our terminals, we are continuing consultations with our major stakeholders. In fact, we are keen to listen to and talk with all industry participants.

STL is in the secure position of controlling the 6 Queensland bulk sugar terminals with very long leases from the respective port authorities. While these terminals are subleased to QSL for 5 years from 1 January 2014, the Sublease is dependent on QSL controlling certain percentages of the sugar that is stored and handled at each terminal. Should QSL's percentages drop below the nominated levels, STL may terminate the Sublease or exclude the affected terminal(s) and enter into alternative arrangements.

The Board and management of STL is involved in ongoing discussions with QSL on the possible impacts of the industry marketing changes on terminal operations and on our sublease and the options for our future relationship. A key consideration for STL in this regard is QSL progressing discussions with the other export marketers on post June 2017 Storage and Handling agreements.

We understand our responsibility as the effective owner of the monopoly assets that are our 6 Bulk Sugar Terminals and remain hopeful that there will be a negotiated industry outcome that is acceptable to all stakeholders. We are committed to see the solution and the future terminal operating model incorporate the basic regulatory principles of "economic efficiency" and "fairness".

We all need to accept that the industry will change in 2017. We need to work to ensure that the change is for the better - which may well involve compromise from previously stated positions.

Our industry can't afford to be wracked by internal divisions. With continued pressure on the sugar price, our collective attention must be devoted to strengthening our position in the world sugar market and to securing the future of all industry participants.

### **Retirement of Richard Farquhar**

In March 2015, I announced that Mr Richard Farquhar would be retiring as the company's General Manager and Company Secretary after more than 12 years. Mr Farquhar's retirement became effective 31 July 2015. I would like to thank him for his enormous contribution to STL over this period and extend to him the Board's best wishes in his retirement.

I would also like to welcome his replacement, Mr Peter Trimble, who joined STL in July and we look forward to working with him.

### **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 Managers, Richard and Peter, for their contribution throughout what has been another busy and productive year.



Stuart Gregory

**Chairman**

Brisbane

22 October 2015