

Potential Offer for SunRice

October 2010



The Rice Food Experts

Contents

Section	Description	Page
1	Introduction	3
2	Proposal highlights	5
3	About Ebro	6
4	Background and overview	14
5	Summary of the Exclusivity Agreement	15
6	Details of rice purchasing commitment	16
7	Grower Advisory Board	22
8	Other options considered	23
9	Conclusion	28
10	Recap of indicative timing	29

1. Introduction

- On 21 October 2010, SunRice announced that it had entered into an agreement for exclusive negotiations (“Exclusivity Agreement”) with Ebro Foods S.A. from Spain in relation to a potential offer for an implied Enterprise Value of approximately \$600m
 - Ebro is a world leader in the rice sector and the second largest group in the international pasta sector with leading brands in each of these sectors
- The Exclusivity Agreement also sets out the key commercial principles of the potential offer
- Over the next five weeks, discussions with Ebro will continue with the aim of announcing an agreed transaction that can be put to shareholders
- Any transaction will require both A class and B class shareholder and regulatory approval
- It is currently expected that any shareholder vote will be in March 2011

1. Introduction (cont'd)

Indicative timetable

Date	Event
October 2010	Shareholder information meetings being held
October/ November 2010	SunRice negotiates with Ebro
Late November 2010	Execute formal document if agreement can be reached
Early December 2010	SunRice and Ebro to meet shareholders (TBC)
Early February 2011	First Court hearing to ask the Court to call a meeting of SunRice shareholders
Mid February 2011	Despatch scheme booklet (including Independent Expert Report) to shareholders
February/ March 2011	Shareholders have at least 28 days to consider information sent to them SunRice and Ebro to meet shareholders (TBC)
Mid March 2011	Hold shareholder meetings to consider the transaction
Late March 2011	Second Court hearing Date Scheme implemented and shareholders get paid, if transaction approved

- SunRice will seek to conclude negotiations with Ebro as soon as possible
 - In the meantime, the Board recommends that shareholders take no action in respect of their shares in SunRice pending further announcement
- The Board will keep shareholders updated on the status of negotiations



2. Proposal highlights

Global market leader

- An expanded global rice food business

Material value enhancement for shareholders

- Implied Enterprise Value is approximately \$600m; equity of \$315m
- A Class shareholders - \$50,000 per share in cash
- B Class shareholders - \$5.025 per share in cash plus 60.3 cents per share of franking credits¹

Strong, tangible commitment to Australian rice growers

- Ebro will:
 - Purchase rice and the price for at least the next 5 years (commencing in 2012) will be based on Californian prices for Medium Grain rice (see Section 7)
 - Look to grow international markets through its global market network
 - Maintain SunRice's level of support for research and development
 - Continue SunRice's support of the Australian rice industry, including support for the RGA and the rice growing communities
 - Investigate the possibility of sourcing durum wheat and other grains from Australia to supply its global pasta businesses
 - Establish a Grower Advisory Board comprising three grower representatives, an independent non-voting chairperson and three representatives from Ebro

Note 1 – This is based on the current number of eligible A Class and B Class shares

3. About Ebro

- Ebro is the largest branded rice company and the second largest branded pasta company in the world
- Ebro has over 23 operating subsidiaries in Europe, America, North Africa and Asia with a portfolio of over 60 brands
- Ebro is the leading food group in Spain in turnover, profit, market capitalisation and international presence
 - Turnover – A\$ 3.1 billion (2009)
 - Net Profit – A\$ 252 million (2009)
 - Market Capitalisation – A\$ 3.4 billion
 - No net debt
 - Ebro Foods SA shares are quoted on the Madrid Stock Exchange (Ibex 35 company)
- Ebro has a strong, debt free balance sheet and strong cash flow generation
- Significant involvement of the Hernandez family, a family of rice farmers and currently the largest shareholder – the business continues to enjoy a close relationship with rice and durum wheat growers in all its businesses
- SunRice and Ebro have enjoyed a close and strategic relationship for over 50 years



3. About Ebro (cont'd)

Key brands



3. About Ebro (cont'd)

Rice business commentary

- Ebro is the largest rice processor in the world with leading brands in most countries in Europe, USA and Canada
- Significant global operations
 - **Europe:** 5 rice mills in Spain, 6 rice mills in rest of Europe with 500kt p.a. of paddy rice equivalent
 - **North America:** 3 rice mills with 485kt p.a. of paddy rice equivalent
 - **Other:** 4 rice mills with 450kt p.a. of paddy rice equivalent in Morocco, Egypt, Thailand and Uruguay and 150kt p.a. of other traded rice

Rice market share information

Country	Market share
Spain	24.0%
Portugal	16.0%
Germany	20.0%
Belgium	31.7%
Puerto Rico	23.0%
USA	24.0%
Canada (Instant Rice)	65.0%
France	23.0%

Source Ebro

3. About Ebro (cont'd)

Key rice products



3. About Ebro (cont'd)

Pasta business commentary

- Strategy in pasta is focused on:
 - Convenience – e.g. microwave products and quick cook
 - Health – e.g. pasta enriched with vegetables, whole grain pasta, high fiber white pasta etc
 - Taste/Ethnics – e.g. fresh pasta, fresh sauces, Halal etc
- Significant operations
 - **Europe:** 10 factories in Europe, purchase 582kt p.a. of durum wheat
 - **North America:** 3 factories in USA, 1 factory in Canada, purchase 280kt p.a. of durum wheat

Pasta market share information

Country	Market share
Germany	11.2%
Belgium	13.7%
Czech Republic	12.5%
USA	25.8%
Canada	39.4%
France	40.8%
France (Sauce)	33.6%
France (Fresh Pasta)	30.5%

Source Ebro

3. About Ebro (cont'd)

Key pasta products

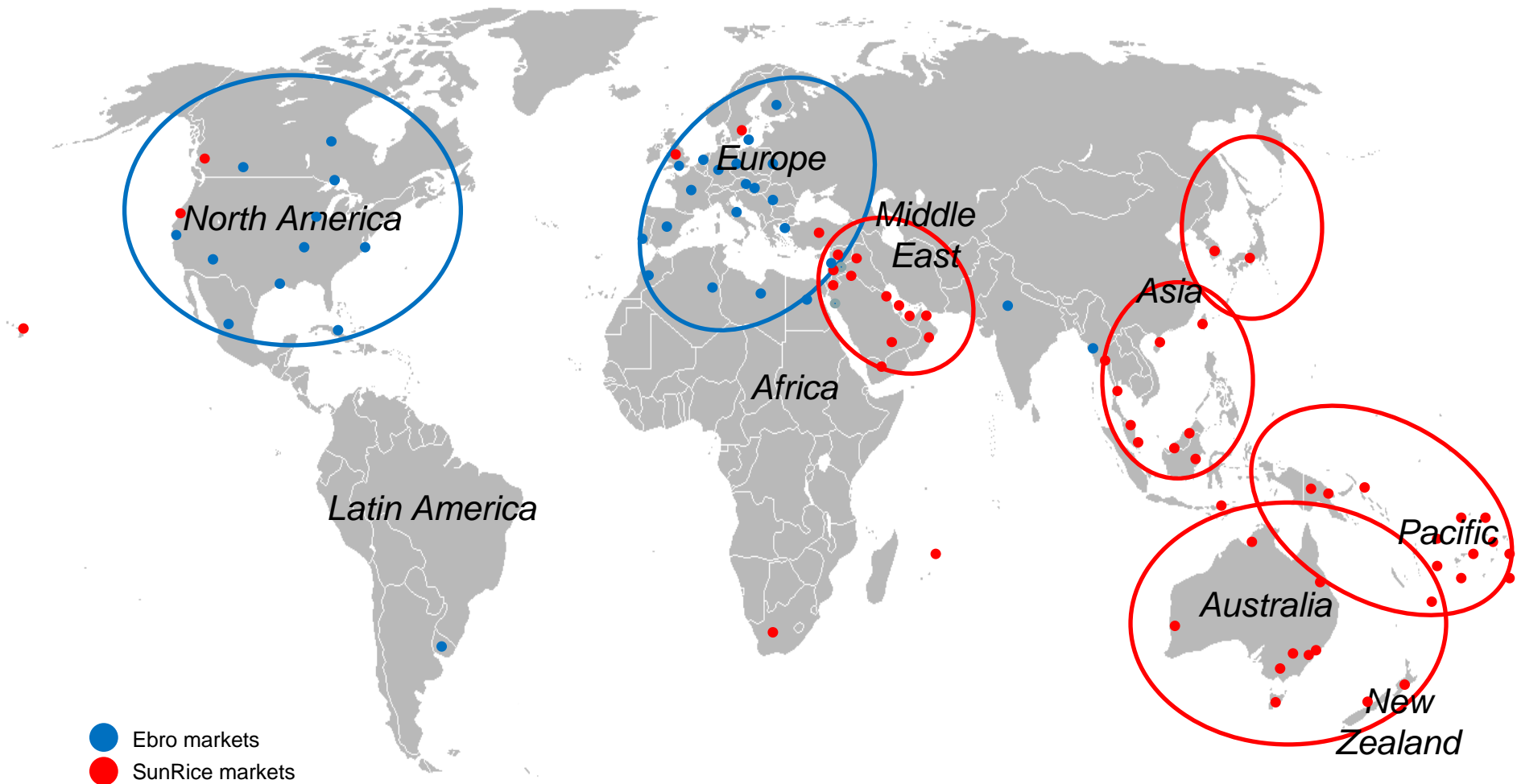


3. About Ebro (cont'd)

- SunRice and Ebro have participated in two successful joint ventures
 - Anglo Australia, UK was formed to supply Australian rice to food ingredients customers throughout the UK and Europe
 - Herto, Belgium was a rice cake manufacturer for Europe

- SunRice and Ebro have enjoyed a longstanding trading relationship that continues to today
 - Herba (Ebro's European rice arm) bought the first cargo of Australian brown rice sold into Europe – this 20,000 tons cargo was the introduction of Australian Medium Grain to Europe in 1973
 - Herba has continued to buy Australian rice for European markets, when available
 - SunRice has bought Arborio rice from Herba for its markets when required – Herba is currently packing SunRice Arborio for Australia

3. About Ebro (cont'd)



4. Background and overview

- The offer was unsolicited
- The Board is of the view that the Proposed Transaction would be likely to produce a superior outcome for shareholders and growers compared to the other available options
- The Proposed Transaction can only proceed with the agreement of both A Class and B Class shareholders of SunRice
 - A minimum of 75% of A Class and 75% of B Class shares by value and a minimum of 50% by number of each class present and voting must be voted in favour
- If an agreed proposal is put to shareholders and is consistent with the Commercial Principles, each of the Directors of SunRice:
 - Will recommend that shareholders accept the proposal; and
 - Intends to vote their shares in favour of the proposal,in the absence of a superior proposal or the failure of an independent expert to provide an opinion supporting the terms of the Proposed Transaction

5. Summary of the Exclusivity Agreement

Consideration per share¹

	A Class share	B Class share
Total cash consideration	\$50,000	\$5.025
Franking credits	n.a.	\$0.603
Total consideration plus franking credits	\$50,000	\$5.628

Note 1 – This is based on the current number of eligible A Class and B Class shares

- SunRice has granted Ebro a five week period of exclusivity, subject to fiduciary duties
- During this period, due diligence undertaken and negotiation of a Scheme Implementation Agreement which will document the final terms of the Proposed Transaction



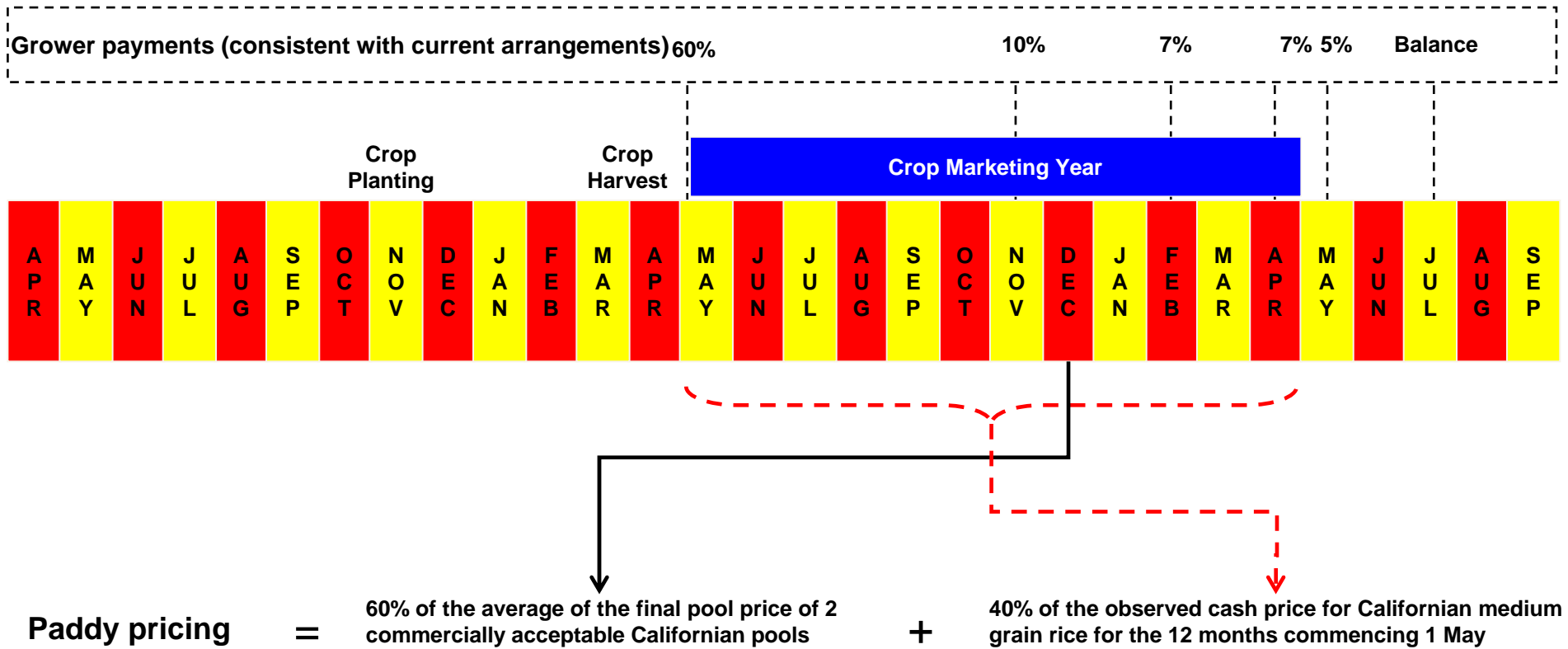
6. Details of rice purchasing commitment

- SunRice currently buys the vast majority of paddy rice produced in NSW
- The purchasing commitment will be for 5 years (under Scenario 1 below, purchasing commitment will renew automatically for successive 5 year periods)
 - Ebro can terminate or modify the commitment at the end of any 5 year period if it gives at least 2 years notice prior to the expiry of the period
- Ebro will vary the purchasing arrangements based on 3 broad scenarios:
 1. **SunRice maintains the Sole and Exclusive Export Agreement (“Exclusive Licence”)** – Ebro will commit to buy all the Medium Grain rice offered to it in NSW under a 3 pool system in accordance with the Exclusive Licence. For at least 5 years, pricing is as described further in this section
 2. **SunRice loses the Exclusive Licence** – Ebro will commit to buy 400kt of paddy for a minimum of 5 years at a set pricing formula. Ebro will also commit to buy the remaining paddy offered to it for 2 years following the loss of the Exclusive Licence. If the agreement is terminated by Ebro after at least 5 years, rice may be purchased by Ebro at market prices
 3. **SunRice loses any right to export** – If prior to completion, Ebro can terminate the transaction. If post completion, paddy may be purchased at market prices



6. Details of rice purchasing commitment (cont'd)

Illustrative mechanism



6. Details of rice purchasing commitment (cont'd)

- Ebro will also buy 100kt p.a. of NSW long grain and other rice varieties at market prices (unless it loses the right to export)
- The timing of payments made to rice growers will be consistent with the existing payment structures
- To address the issue of crop size, the crop will be split into 3 pools under Scenario 1
 - Participation in the pools will be on a pro-rata basis on the basis of quantity of paddy ultimately delivered to SunRice

6. Details of rice purchasing commitment (cont'd)

Scenario 1 – Pricing mechanism assuming Exclusive Licence retained (first 5 years)

Pool 1 – 1st 400kt MG paddy

- Minimum of the following price¹:
 - The average of the final pool price of two commercially acceptable Californian pools² struck in the December immediately following the April NSW harvest multiplied by 0.6, plus
 - The observed cash price for California Medium Grain rice for the 12 months commencing 1 May, multiplied by 0.4
- The chosen pools and multiplier will change as recommended by the Grower Advisory Board

Pool 2 – next 400kt MG paddy

- The price will be at the Pool 1 price less a discount of between US\$50/t and US\$90/t
 - The discount will be determined by the Grower Advisory Board
- Criteria applicable to determining the discount will be included in the Scheme Implementation Agreement

Pool 3 – 800kt+ MG paddy

- Prevailing market price
- To be negotiated as part of Scheme Implementation Agreement

Notes

1 – The conversion from US\$ to A\$ will be done at the average A\$:US\$ exchange rate for the 12 months from 1 May each year (averaged on daily calculations)

2 – The pools for the 2012 harvest will be included in the Scheme Implementation Agreement

6. Details of rice purchasing commitment (cont'd)

Scenario 2 – Pricing mechanism assuming Exclusive Licence not retained (first 5 years)

Pool 1 – 1st 400kt MG paddy

- Minimum of the following price¹:
 - The average of the final pool price of two commercially acceptable Californian pools² struck in the December immediately following the April NSW harvest multiplied by 0.6, plus
 - The observed cash price for California Medium Grain rice for the 12 months commencing 1 May, multiplied by 0.4
- The chosen pools and multiplier will change as recommended by the Grower Advisory Board

400kt+ MG paddy

- Ebro will commit to buy the remaining paddy offered to it for 2 years following the loss of the Exclusive Licence
- Beyond such time, paddy will be purchased at the prevailing market price

Notes

1 – The conversion from US\$ to A\$ will be done at the average A\$:US\$ exchange rate for the 12 months from 1 May each year (averaged on daily calculations)

2 – The pools for the 2012 harvest will be included in the Scheme Implementation Agreement

6. Details of rice purchasing commitment (cont'd)

2010 crop

- SunRice will pay growers for the crop harvested in April 2010 as follows:
 - **Premium pool of approximately 85kt:** at the price contracted in August 2009 for this pool of \$550/t
 - **Balance:** at a price contained in the most current budget and forecast prepared by SunRice

2011 crop

- SunRice will pay growers for the crop harvested in April 2011 a price:
 - Consistent with SunRice usual practice
 - Based on the most current forecast prepared by SunRice
 - Which is the subject of review and recommendation by the Grower Advisory Board
- SunRice will give an indication to growers of the 2011 pool price before any meeting to consider the offer

7. Grower Advisory Board

- A Grower Advisory Board will be established consisting of three representatives from the NSW rice growing community, three representatives from Ebro and an independent non-voting Chairperson
 - The first grower representatives will be nominated by SunRice
- The role of the Grower Advisory Board will include:
 - Considering and making recommendations as to the appropriate price to be paid for NSW Medium Grain rice under the proposed terms of the purchasing commitment set out above (Pool 2 under Scenario 1)
 - Reviewing the price to be paid for the 2011 Medium Grain rice crop to ensure it has been calculated consistently with prior years
 - Acting as a forum for consideration of issues of interest to growers
- Ebro supports the Grower Advisory Board as it wishes to have constructive long-term relationships with the growers, as it does in other geographies

8. Other options considered

- The Board considered a range of options when assessing the potential offer from Ebro
- These options (described further in this section) included:
 - 1) Status quo
 - 2) ASX listing
 - 3) Delisting from the NSX
 - 4) Break-up
- The Board is of the view that the Proposed Transaction would be likely to produce a superior outcome for shareholders and growers, compared to other potential options
 - Therefore the Board intends to work with Ebro to develop the Proposed Transaction so that it can be put to shareholders for their vote

8. Other options considered (cont'd)

1) Status Quo

Advantages

- Existing shareholders retain control and ownership

Considerations

- Shareholders unable to receive full value for their shares
 - Shares continue to trade at low value
- SunRice's gearing is currently high when compared to peer group businesses (gearing at 30 April 10 is 118%)
 - Leaves SunRice vulnerable to profit shocks and tightening credit markets
- Very limited ability to fund equity capital
 - Would require growers to fund with cash or paddy price retention
- Limited capacity to fund growth

Given the considerations, status quo is not preferred



8. Other options considered (cont'd)

2) ASX listing

Advantages

- More effective share pricing mechanism
- Increased liquidity
- Remains Australian owned (initially)
- Larger pool of capital available to fund growth and decrease gearing
- May assist in attracting, retaining and incentivising employees

Considerations

- Existing control mechanisms (e.g. A Class voting structure) will need to be removed
 - May be a transitional phase
- Board likely to comprise a majority of Independent Directors who are not growers
 - Therefore grower control is removed
 - In a takeover situation, Board will primarily need to consider value, not arrangements with growers
- Dilution of ownership interest of existing shareholders as significant capital raising required
- Need to apportion value between A and B class
- Likely that financial investors (i.e. institutions) will control SunRice
 - Therefore change in control likely to fall outside growers decision
- Value likely to be materially lower than Proposed Transaction



8. Other options considered (cont'd)

3) Delisting

Advantages

- Existing shareholders retain control
- No observable share price, SunRice may be able to set the price of shares
- May be less stringent requirements given SunRice will no longer be listed on the NSX
- Likely to be some cost savings (modest) from not being listed on the NSX

Considerations

- If the price of SunRice shares is set too high, sellers of SunRice shares may not be able to dispose of their shares given a lack of buyers
- Unlikely to be a material increase in the price at which SunRice shares are traded
- Does not address many of the issues placing pressure on the SunRice share price, namely:
 - High gearing
 - Shareholder restrictions on ownership, voting and transfers
 - Pool of available capital likely insufficient to reduce gearing/ support growth and only able to raise capital from B-Class shareholders
- Setting the price of shares will require either a SunRice buy back program or a third party tender

8. Other options considered (cont'd)

4) Breakup

Advantages

- Raises additional capital
- May be able to achieve a premium valuation for certain businesses

Considerations

- Reduces earnings base and diversification of earnings
- Potentially significant tax payable on disposals
- Lengthy process, execution risk
- SunRice becomes more vulnerable to profit shocks in individual business units
 - Increases overall risk of remaining businesses
- May limit attractiveness of SunRice to current and future employees
- Proceeds of disposals largely used to repay debt, little return to shareholders
- You can only sell assets once
- Unlikely to improve B class share price. Provides no value for A class shares

9. Conclusion

- The Board has assessed a range of options to maximise value for shareholders and deliver certainty for growers
- The Board is of the view that the Proposed Transaction would be likely to produce a superior outcome for shareholders and growers compared to the other available options
 - Value per share is materially above the value likely to be realised under the other options
 - Rice purchasing commitment provides certainty for growers
 - Promotes the ongoing viability of the Australian rice industry
 - Less execution risk than other available options
- Therefore the Board intends to work with Ebro to develop the Proposed Transaction so that it can be put to shareholders for their vote

10. Recap of indicative timing

Indicative timetable

Date	Event
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October/ November 2010	SunRice negotiates with Ebro
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