

17<sup>th</sup> March 2011



Dear Shareholder

## **EBRO OFFER**

The Board of SunRice wishes to correct some comments concerning the offer from Ebro being made by a small number of shareholders, some of which have been reported in the media.

In this communication we would like to take the opportunity to address three such comments.

### **1. Disclosure of the offer and Directors' shareholdings.**

Some people suggest that the offer from Ebro was known by the Directors well in advance and they have somehow sought to benefit from this fact. This is untrue.

It is important to understand the events leading up to the offer:-

- In the months leading up to October 2010, Ebro indicated to SunRice that it was interested in expanding into the Asia Pacific region and was considering how it could enter the market.
- This led to Ebro indicating an interest in entering into exclusive negotiations with SunRice to make an offer for its business. These indications were unsolicited, preliminary and incomplete.
- On **20 October 2010** Ebro finalised the key terms of an offer which was considered by the Board throughout that day and into the night. An agreement to negotiate exclusively with Ebro was finalised after the Board requested changes to the offer. An announcement was made to shareholders the following morning.
- The decision to put a proposal to shareholders, and the final form of that proposal, was not agreed to by the Board until **25 November 2010** when the Scheme Implementation Agreement was signed.

Many companies do not announce proposed schemes of arrangements until after a Scheme Implementation Agreement is signed, however SunRice chose to do so earlier to keep shareholders fully informed. This also enabled the Board to speak to shareholders to ascertain their views on the proposed terms of the Scheme Implementation Agreement before committing to the agreement.

We want to make it very clear that since **July 2009** no shares have been issued to any SunRice Director and no shares in SunRice have been acquired by any SunRice Director.

In **June 2009**, we asked you to participate in a capital raising and RMB Equity Conversion. This was part of our ongoing program since 2006 to increase the capital base of SunRice. Participation was open to all shareholders. At that time Directors did what we asked you all to do and participated to support SunRice. This reflects Directors' commitment to SunRice at a time when there was no thought of an offer from Ebro or from anyone else.

We would like to clearly state that:-

- It is not true that the offer was not disclosed when it should have been.
- It is not true that Directors have built up their shareholdings to benefit from the offer.
- To suggest otherwise is defamatory, without foundation and damaging to Directors.

### **2. The claim that the Ebro offer undervalues SunRice.**

Comments have been made that SunRice has assets in excess of \$1 billion, that the Ebro offer is undervalued, and even that SunRice "has a value closer to \$2 billion".

The Board went through a rigorous process to satisfy itself that the offer of \$600 million represents superior value to the status quo and to other available options, such as listing on the ASX.

Other people are free to offer more money for SunRice. If another bidder was to offer more than \$600 million for SunRice that offer would obviously be considered by the Board. At the time of writing no other offer has been made.

Shareholders will receive an Independent Expert's Report which will outline the expert's valuation and opinion on the offer. This will allow shareholders to put these claims of assets in excess of \$1 billion and of "a value closer to \$2 billion" into context.

When considering the Ebro offer the Board took the paddy purchasing commitment to rice growers into account. This commitment has now been extended to seven years. The Board regards this commitment as a very important part of the Ebro offer and believes that it gives greater certainty of achieving premium rice prices than SunRice is capable of providing.

### **3. *SunRice's need for capital.***

Some comments have been made that SunRice's level of bank debt is higher than has been reported previously and is only being highlighted now to support the offer.

The level of SunRice's debt has always been reported in Annual Accounts and Half Yearly Accounts and covered in presentations to shareholders.

We have also communicated to you that SunRice requires the support of growers and its limited rice grower and ex rice grower shareholder base to provide capital to replace maturing Rice Bonds and RMB Equity.

In 2006 the Board commenced a capital raising program to offer shareholders the opportunity to contribute capital and convert Rice Bonds and RMB Equity into SunRice shares. This program had limited success. Only 21% of Rice Bonds and 28% of RMB Equity has been converted.

In 2006, \$161m of funds were provided by rice growers. Since then \$41m of this debt has been converted to shares in SunRice and only \$31m of RMB Equity remains outstanding. As a consequence, around \$89m of funding previously provided by rice growers has been repaid and 90% of SunRice's debt is now provided by banks.

This, together with the Global Financial Crisis, has put pressure on our bank margins and covenants. Under these circumstances SunRice is finding it difficult to fund growth and innovation and the Board believes that it is inevitable that the business will suffer adverse consequences if SunRice's debt to equity ratio is not reduced to the level targeted by the Board.

We recognise that shareholder priorities have had to be determined during the drought and that some shareholders may not wish to, or are unable to, provide further equity to SunRice.

However the fact remains that the Board firmly believes that SunRice needs to continue to address its current high debt level, an approach it has consistently pursued since 2006.

The Board has chosen to write to you directly to correct certain comments made regarding the Ebro offer. Before relying on these comments, we urge you to wait for the explanatory booklet and independent expert's report which relate to the Ebro offer as they will include reasons why you may consider voting for or against the offer.

That material will provide a more balanced view than the unsubstantiated claims being made currently and you should consider it carefully.

Kind regards

The Board of SunRice.