

SunRice update

October 2012 Number 75

A letter from our Chairman

As we announced at our Annual General Meeting in August and in subsequent shareholder communications, we have started the 2012/13 year in a strong position. In this edition, we are delighted to confirm a \$20 per tonne paddy price increase for medium grain for the 2012 crop and to provide an update on our anticipated net profit position for the first half ending 31 October 2012. In addition to a busy six months for SunRice and our subsidiaries, there is a large body of work underway examining our Capital Structure and strategic outlook. There has already been debate about the end point of this process and in this edition CEO Rob Gordon will take the opportunity to clarify some of these issues, including claims regarding SunRice's expenses, and comparisons with the Californian rice price. I would also like to draw your attention to the details of the November Capital Structure Review shareholder meetings, as well as news on the company's recent NSW Export Awards win.

The Board looks forward to hearing from you in the coming weeks as we commence the Capital Structure Review consultation process.

Crop Update

Rice sowing is nearing completion with seed orders indicating another good crop, the third in a row since the drought. Growers have supported our call to increase production of most of our specialty varieties and ballots were required for many of them. As a result, we expect to meet our target tonnages for Opus, Koshihikari, Illabong, Kyeema and Doongara.

With regard to medium grain, Sherpa orders exceeded our market requirement, triggering a ballot. However it is pleasing to report that we were able to offer Sherpa to everyone who placed an order, after a significant number of growers who were successful in the ballot modified their orders.

Reiziq orders have also been excellent and overall, we should achieve our medium grain target tonnages.

I congratulate our growers for their cooperation in helping us achieve seed orders in line with market requirements. This is a demonstration of the market driven nature of our industry and an important contributor to our success.



C12 Paddy Price Increase

As noted in the CEO's report that follows, the continuation of good trading conditions has resulted in a strong first half for SunRice. As a result, we are delighted to revise our indicative full year medium grain paddy price from \$260 to \$280 per tonne for the 2012 crop.

In recognition of SunRice's improved cash flow position, on this occasion we also decided to bring forward the second payment scheduled for 20 November to Tuesday, 30 October 2012. The overall increase will see the medium grain (Reiziq) second payment increase from the forecast \$22 per tonne to \$55 per tonne. We are pleased to be in a position to be able to do this and hope that it assists growers at a time when rice planting and winter crop harvest place considerable demands on cash flow.

Please note a full schedule of payments can be found on the final page of this Update.

Capital Structure Review

As discussed at the SunRice AGM, the Capital Structure



The Rice Food Experts

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Review, including consideration of the ideal Board Structure and development of a Paddy Procurement Charter, is progressing. We will be hosting shareholder meetings across our growing regions from 13 – 15 November, with a full schedule to be sent to you shortly.

In this first round of meetings, we will set the record straight on the misinformation circulating in the industry currently, and answer your questions about these matters as well as potential restructure options, including an ASX listing. There will of course be further opportunities to meet and – as the review progresses – consider in depth, the proposed options under development.

We hope as many of you can attend as possible at what we know is an extremely busy time. It is important that our shareholders and the company are afforded the opportunity to complete this review in a structured and comprehensive way for the good of all shareholders.

NSW Export Awards Win

I am delighted to share with you that the extraordinary return of Australian rice to the world

in 2011/12 has been recognised at the 2012 Premier's NSW Export Awards, where SunRice won the Regional Exporter Award.

The award recognised an outstanding year, in which SunRice reclaimed significant export markets, expanded our operations and achieved record revenue, as well as employing 400 people since the drought. It is wonderful to have these achievements and our commitment to regional NSW awarded in a program which celebrates excellence and I thank each of our shareholders, growers and employees for their significant part in making this happen.

SunRice will now compete with the other state and territory finalists in the Australian Export Awards on 27 November in Canberra.

As always, please feel free to contact me or my fellow Directors with feedback or questions.



GERRY LAWSON AM
Chairman



Trading and Market Update

Our rice milling and marketing business started the year well, with year-to-date sales at prices stronger than budget in both domestic and export

markets. The Australian rice business has also benefited from improved performance in our manufacturing operations following last year's accelerated start-up.

Improved sales and operational performances have generated better cash flows for the business, which will deliver further improvements to our gearing position at the end of the half year. We anticipate that net profit after tax (including minorities) for the 2012/13 half year ending 31 October 2012 will be more than 15% above the result achieved for the same period last year.

We are however more cautious about the second

From our CEO Rob Gordon

half of the year. Increased price pressure is anticipated due to a range of factors, including:

- The US rice harvest currently underway, coupled with our larger crop. The drought in the US has not impacted 2012 rice production and recent tender sales of US medium grain were at lower than expected prices;
- Egypt's announcement that it is reopening its borders to rice exports. Rice exports were banned from 2008 to ensure food security during a period of political turmoil, but exports are now permitted and could impact prices in our important Middle East markets; and
- A large rice stockpile in Thailand on top of another large harvest expected this month. The Thai Government's paddy floor price subsidy scheme has led to a build-up of around 17 million tonnes of unsold paddy stock. It is uncertain as to how long the subsidy program will continue and how the Government will deal with the stockpile overhanging the market.

The Australian dollar continues to trade above parity despite the recent easing of official interest rates, which also continues to impact on export sales revenue. Nonetheless, following the strength of the first half, the business is in a pleasing position.

Paddy Pricing Transparency

There has been some commentary recently comparing SunRice’s 2010/11 crop paddy prices to those in California. In addressing this, I firstly want to point out the significant benefit to prices paid to growers that flow from vesting and the Sole and Exclusive Export Agreement, which allows SunRice to be the sole exporter of NSW-grown rice.

Recent analysis completed by SunRice for the NSW Government examined the prices achieved in every international market we supply and determined that vesting and the Sole and Exclusive Export Agreement delivered an average price premium of \$40.3 million for Australian rice last year. This translates to \$69 per paddy tonne and we resolutely maintain that this benefit must be retained for the well-being of our growers, our company, and the entire rice industry.

While the analysis clearly demonstrates the value of the single export rights in maximising the price for Australian rice, every rice market has a different supply chain and different costs, which translate back to different farm gate prices across the world. While I appreciate this is known to many of you, I would like to revisit some of these factors in light of

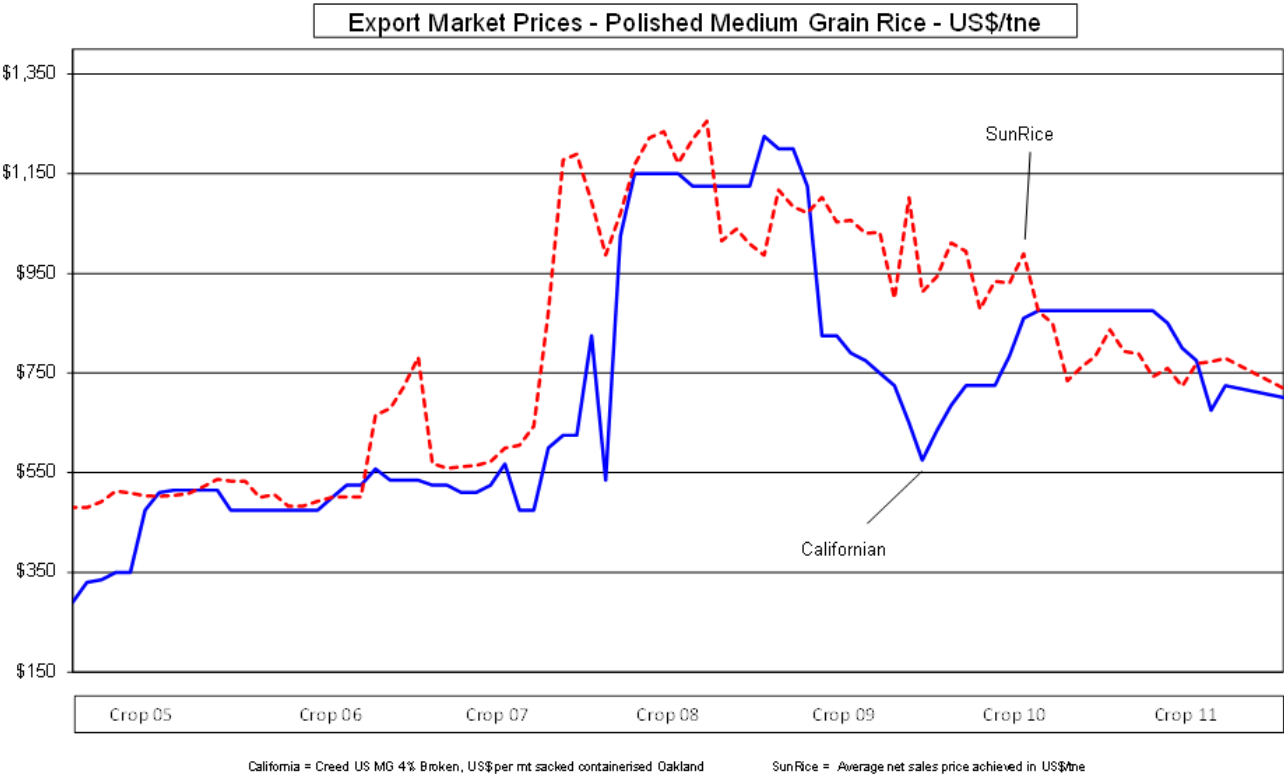
recent commentary.

Whilst there is no single international market with which Australian paddy returns can be comprehensively benchmarked and simplistic comparisons of SunRice’s price for the whole crop with selective Californian pool prices can, out of context, be very misleading, nevertheless our pricing has been compared to Californian pricing and so I will provide a few facts based on this comparison.

Considering first the prices achieved for finished product in export markets, the graph below contrasts the average prices SunRice achieved in its medium grain export markets compared to the prices published in Creed Reports, which track Californian medium grain pricing.

When it comes to farm gate paddy prices, it is the relative amount we sell in these export markets, the premiums we achieve, the different mix of domestic and export sales and our unique supply chain costs which ultimately determine the price that is paid. Despite the many differences between the Australian and Californian markets which I address below, SunRice has nevertheless outperformed the Californian market in four of the last seven years.

In more detail, the markets differ in that Californian growers sell their crop through multiple pools and a significant cash market. They have a substantially different supply chain, different sea freight legs, and a markedly different sales mix, in which premium



domestic sales represent more than half of their business. The price quoted for Californian rice also excludes the costs of drying and warehousing paddy, which Californian growers pay separately instead of as a charge deducted from their return.

In contrast, SunRice completes most of its milling and value-adding in Australia before exporting 80% of the crop as predominantly branded products.

From our Australian base, most of our export markets are a considerable distance away. While manufacturing in the Riverina remains the most efficient way to handle our crop, the costs involved in drying, storing, milling, transporting and marketing Australian rice are taken into account in the difference between what we pay our growers for paddy and the prices we achieve for selling finished product.

Of course in addition to these normal costs, over the past two financial years SunRice has incurred reestablishment costs associated with the drought breaking.

As outlined in the 2012 Annual Report, the return to more normal levels of Australian production triggered the recommissioning of regional infrastructure and the reactivation of storage, rail, road transport and stevedoring operations over the past 18 months. We have also recruited and trained around 400 permanent and seasonal staff to ensure we were well placed to process and market 2010/11's 800,000 tonne crop and the 963,000 tonne crop we received in the last harvest.

These reestablishment costs were reflected in the corresponding paddy prices for the 2010/11 crop

and will continue to be reflected in paddy prices until our Australian operations and associated functions are fully re-established.

It's important to remember that as a net exporter, the majority of these costs are incurred in Australian dollars for products that are traded in US dollars. The continued strength of the AUD therefore directly impacts our recoveries and the profitability of the Australian rice milling and marketing business, from which paddy payments are made. These circumstances are of course applicable to all Australian exporters, not just SunRice.

Although the analysis above highlights the complexities of benchmarking paddy pricing, the development of a Paddy Procurement Charter – announced by the Board in June as part of the Capital Structure Review – is intended to deliver increased transparency of pricing and provide certainty around the pricing process for both growers and investors. We look forward to sharing this work with you in the near future to provide clarity for all shareholders.

2011/12 Results

Despite the foreign exchange pressures and the start-up costs mentioned earlier, the SunRice Group achieved just over \$1 billion in revenue in 2011/12, delivered a profit before tax of \$55 million, and was able to reduce debt by approximately \$79 million; a strong result in our first full year back from drought.

When considering the performance of our company, it is worth noting that businesses typically have expenses that are similar to or nearly as much as their revenue and the difference between the two is profit.

Group Expenses (Financial Year Ended April 2012)	\$m
Group Materials (including finished product, packaging, ingredients, stock feed, Australian and USA paddy)	(559)
Group Freight and Distribution	(134)
Group Employee Expenses	(99)
Group Depreciation, Asset Impairments and Financing Expenses	(47)
Group Energy Costs	(17)
Group Marketing and Advertising	(16)
Group Contracted Services	(15)
Group Operating Leases and Equipment Hire	(10)
Group Maintenance	(9)
Other Group Expenses (Various – Insurance, Research and Development, Communications, Storage, Brokerage Commissions, Recruitment and Training etc)	(39)

Our analysis shows in 2011/12 comparable companies achieved an average profit (before one offs) of 5% of revenue. SunRice's profit result was 6% - in line with these companies. As detailed in our Annual Report, SunRice comprises nine companies and divisions, including CopRice, SunFoods, Trukai Industries and Riviana Foods. Together these divisions achieved \$1 billion in revenue last year, with approximately \$450 million attributable to the Australian Rice Milling and Marketing business. Of this \$450 million, more than \$200 million was paid to growers in relation to Australian paddy purchases.

When considering the Group's expenses, these totalled \$945 million last year, resulting in a profit before tax of \$55 million, in line with market norms. As I noted earlier, this is a good result, particularly for an agricultural company that has yet to recover market volumes post drought and that has a commitment to pay out the majority of "profit" earned in the Australian rice business back to growers in the form of paddy price.

Listed on page four is a table detailing the expenses associated with running all nine divisions of the SunRice Group, which further highlights the scale and complexity of our operations.

In companies like ours, higher revenue will be accompanied by higher expenses, particularly as we continue to expand into higher value-added areas in the future.

While we continue to focus on optimising our costs, it is important to understand that we are still re-establishing the Australian rice milling and marketing business post drought. Continued capital investment in our facilities and operations as well as reinvestment in our brands and innovation will be required in the year ahead. These actions, and others, will ensure SunRice recovers fully and becomes a more robust and financially resilient business – one that can deliver sustainable value and returns for shareholders and growers alike for the long term.

I look forward to speaking with many of you in the coming months.



Rob Gordon
CEO

C2012 PAYMENT SCHEDULE (TRADITIONAL POOL \$/TONNE EXCL OF GST)

	Reiziq	Other MG & Illabong	Langi	Doongara	Kyeema	Opus	Koshi
1 st Payment (Paid)	\$145.00	\$136.00	\$165.00	\$151.00	\$193.00	\$165.00	\$193.00
2 nd Payment (30 October 2012)	\$55.00	\$54.00	\$64.00	\$56.00	\$69.00	\$64.00	\$69.00
3 rd Payment (26 February 2013)	\$20.00	\$19.00	\$22.00	\$20.00	\$25.00	\$22.00	\$25.00
4 th Payment (23 April 2013)	\$21.00	\$20.00	\$22.00	\$21.00	\$25.00	\$22.00	\$25.00
Ave Appraisal (23 April 2013)	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
5 th Payment (21 May 2013)	\$13.00	\$12.00	\$15.00	\$14.00	\$19.00	\$15.00	\$19.00
Final Payment (23 July 2013)	\$18.00	\$16.00	\$24.00	\$20.00	\$31.00	\$24.00	\$31.00
ESTIMATED TOTAL RETURN	\$280.00	\$265.00	\$320.00	\$290.00	\$370.00	\$320.00	\$370.00

These estimates have been prepared using the information available at the time of publishing. Please be aware that the estimates could be affected by a number of factors, including prevailing market conditions, foreign exchange rates, crop quality and unforeseen events. Therefore the forecast payment schedule should be regarded as an estimate only and the final crop return will depend on the actual conditions that have prevailed throughout the entire crop year.

Please note growers who took the early second payment option will have received the difference between the amount taken early and the rates in the above table. For medium grain (Reiziq), \$22 per tonne was available early so \$33 per tonne was paid.

The information in this publication is of a general nature and should not be treated as a substitute for specific advice. We accept no liability for opinions expressed in this publication, for any errors or omissions.



The Rice Food Experts