

Capital Structure Review SunRice Shareholder Meeting

November 2012



Introduction

GERRY LAWSON AM
CHAIRMAN



The Rice Food Experts

Why are we here today?

- To inform you about the capital review process and the issues we have identified;
- To seek your input and feedback; and
- To advise you of the next steps.

Objectives of the Capital Review

- Maintain a secure supply of Australian rice at a competitive price and provide transparency around paddy pricing;
- Preserve the voting rights of current shareholders, and address anomalies within the share register and current structure;
- Achieve a realistic market value for B Class Shares;
- Ensure financial capacity to position the company for the future; and
- Ensure the Board composition / structure meets the needs of the business today and in the future.

Challenges of the Review

- The aim of the review is to better address the requirements of both classes of shareholders, whilst protecting existing rights and ensuring the company's long term requirements can be met.
- We understand that some new growers are frustrated that they are unable to apply for an A Class Share while the register is frozen.
- On completion of the review it is anticipated that growers will be able to apply for an A Class Share. As part of its approval process, the Board will take account of any constructive arrangements.

What has been done to date

- There has been significant work undertaken over the last five months, including:
 - Exploring impacts of various options, ranging from the status quo, to control entity structures, to an entity with a single class of shares, to an ASX listed company.
 - Consulting advisors.
- No decisions have been taken.
- Your input, feedback and concerns need to be understood and considered first.
- Tackling the issues and presenting options is challenging and it will take some time to provide a solution.

Topics for discussion today

- Share structure and register;
- Paddy charter;
- Board structure; and
- Funding.

Share Structure and Register



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Share register

- **Our shareholder base is changing.** There is now a divergence between the needs of the different groups. For example:
 - Growers accessing facilities with little equity investment;
 - Equity investors supplying little or no paddy;
 - Related entities holding multiple A Class Shares;
 - Commercial rice growers with matching investment;
 - Some growers choosing not to hold any A or B Shares in the company; and
 - Other combinations.
- **Growers are looking to achieve the best paddy price and equity holders want to achieve the best share price.**

Share register continued

- Since converting to a company, there has been a change in the shareholding within SunRice.
- **At conversion in 2005:**
 - 99% of B Class Shares were owned by A Class shareholders.
- **In 2011, after the issue of A Shares following the delivery of the C11 crop:**
 - 69% of B Class Shares were owned by A Class shareholders.

SunRice's Constitution vs. Corps Act

SunRice Constitution

The company operates a large business and the constitution sets out our structure and the rights of shareholders. The two primary objectives of the company are:

- To receive, process and market rice...
- To achieve long term improvements in the paddy price and the profitability of the company's businesses.

The Corporation Act

The Corporation Act sets out laws a company and directors must comply with and may override a company's constitution.

- Directors owe statutory duty to act in the best interests of SunRice as a whole.
- With two classes of shareholders, they also need to take into the account the interests of both classes of shareholders.

We have an obligation to achieve the right balance between grower and shareholder returns.

A Class Shares

- Issues identified by the Board:
 - Constructive arrangements are able to be put in place by restructuring farming arrangements to maximise supplier entities.
 - Potential to build multiple A Class holdings to influence votes.
 - In 2012, we believe up to 33 new delivery names (4% of the register) fell into the above category.

B Class Shares

- Issues identified by the Board:
 - Limits on who can own B Class Shares.
 - Shareholder cap at 5%.
 - Limits on capital raising and debt reduction.
 - Limits on transfer of shares, including upon inheritance.
 - Lack of liquidity – as a result of the restrictions in the constitution and that some investors choose not to participate on NSX. Less than 10% traded since listing in 2007.
 - Do not have voting rights, unless they are also A Class shareholders.
- All of the above limit the value and growth of B Shares.

Share register - A Class shareholder interests

- Key issues relevant to A Class shareholders may include:
 - Paddy pricing.
 - Security of paddy payments and payment options.
 - Access to the SunRice brand through branded pricing for Australian grown rice.
 - Access to storage facilities and local milling infrastructure;
 - Election of grower Directors to the Board.
 - Grower Services, research and development, funding RGA, crop inputs, insurance.
 - Constitution vote / vote on potential takeover bids.
 - Vesting.

Share register - B class shareholder interests

- B Class shareholders have contributed equity to the business. They also bear economic risk.
- Key issues relevant to B Class shareholders may include:
 - Liquidity of shares.
 - Business performance and governance.
 - Dividend returns.
 - Underlying value of shares and share price growth.
 - Transparency of paddy price setting.
 - Voting rights.

Control

- What is “grower control” or control of the company?
- Control means different things to different people. Is it:
 - Paddy price and priority for Australian rice to access “premium” markets?
 - Delivering paddy into SunRice-owned storages?
 - Voting on any take-over proposal?
 - Having shares or equity in the business?
 - Grower representation on the Board?
 - Ability to influence changes in the constitution?

Share Structure and Register

Discussion / Questions

Paddy Charter



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Paddy price and security of supply

- Ensure grower rights relating to rice supply and production are entrenched and protected under all future circumstances (no matter what structure is proposed).
- Increased transparency for growers and shareholders.
- Confirm rules for paddy pricing and grower support services including:
 - The appropriateness of the current asset charge; and
 - The paddy carryover policy and values applied.
- Ensure a fully documented process and formal charter – should this be legally enforceable?

Paddy charter – inclusions/exclusions

Examples of what would be included in the charter:

- Defined pool revenue streams.
- Defined pool costs, expenses and overheads.
- Term of charter.
- Transfer price rules.
- Crop carryover policies.
- Foreign exchange / foreign exchange hedging.
- Paddy handling / AGS storage.

Paddy charter – inclusions/exclusions continued

Examples of what would be included in the charter:

- Varietal premiums.
- Industry support / research and development commitment.
- Brand value.
- Mechanism / timing for crop payments.
- Timing and frequency of communicating estimated crop returns.
- Access to best markets for Australian rice.
- Annual audit of pool returns.

Paddy Charter

Discussion / Questions



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Board Structure



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Board structure

- SunRice is an international business with \$1b in turnover.
- We need a performance-based Board with diversified skills.
- The size of our Board is large:
 - 10 members with a concentration of grower skills.
 - Heavy reliance on two external Directors for other skills such as finance, brand marketing etc.
- Ideally, we need to reduce the Board size and have a greater representation of independent directors.

Board structure continued

- We need the appropriate skills of Directors on committees:
 - For example, Finance, Audit and Risk Committee; and Remuneration Committee.
- Grower representation remains fundamental with majority representation.
- We have engaged a third party to conduct a comprehensive review of the skills of the Board.
- We require more diverse skills regardless of which structure is adopted.

Board Structure

Discussion / Questions

Funding

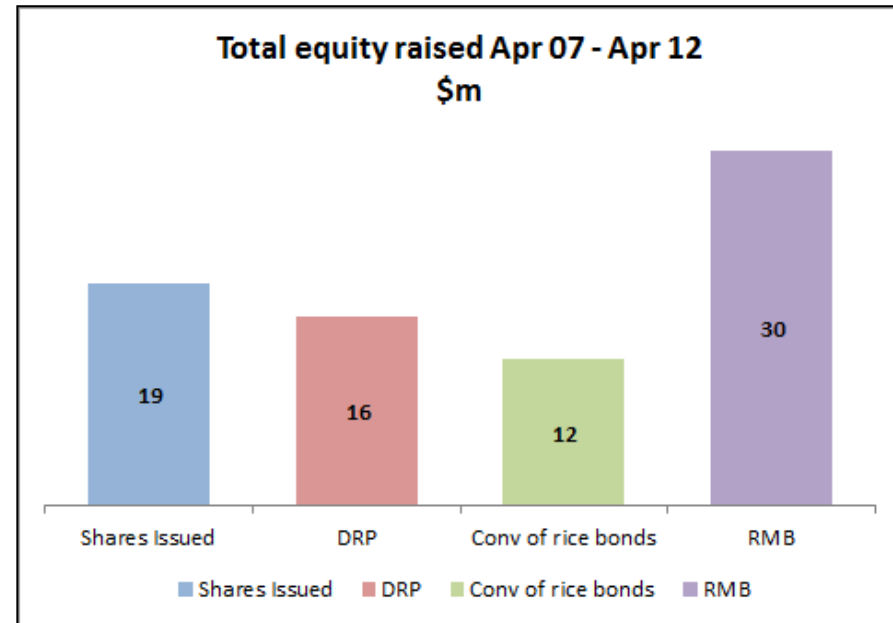
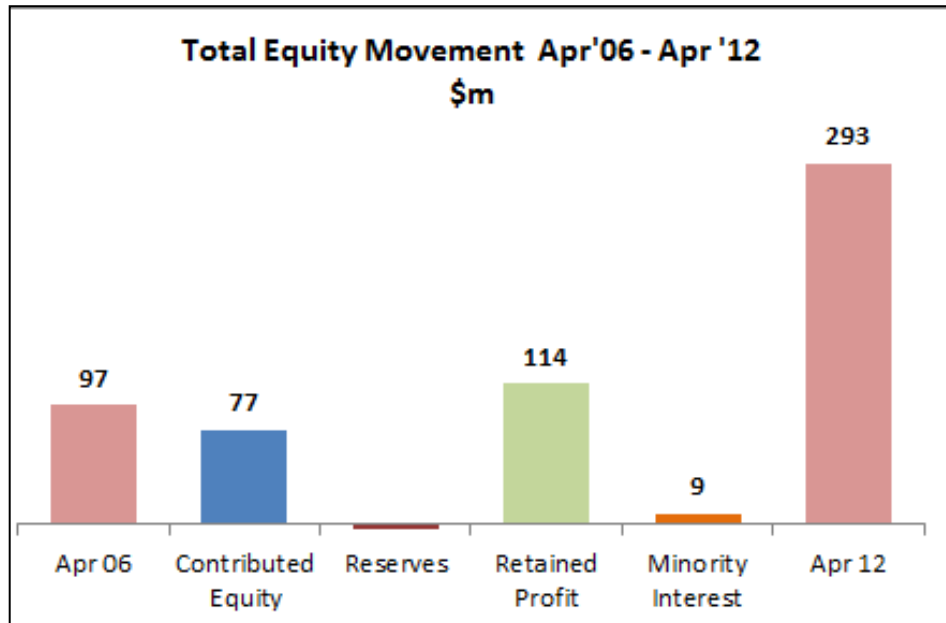


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Funding the business

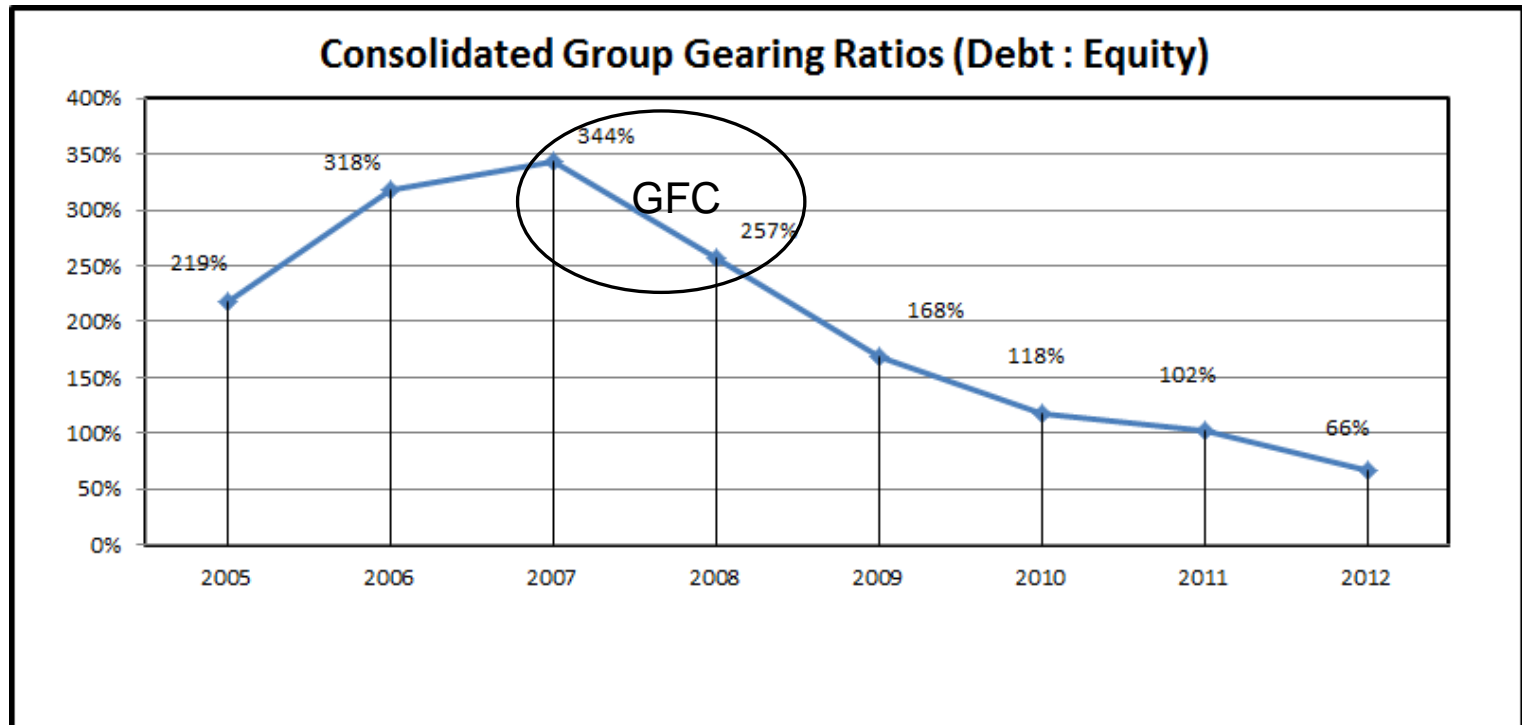
- In the last six years, total shareholder funds has increased by \$196m.
 - This includes \$114m from retained profits and \$77m from increased equity/capital raising.
- Capital issue started with the requirement to repay rice bonds and RMB Equity (from the acquisition of the storage sheds).
- Of the \$77 million raised by the 5 year Capital Raising Program, \$42 million was from the conversion of the existing \$161 million RMB Equity and Rice Bonds.
- Around 30% of dividends has been reinvested.
- Is it possible to expect growers to contribute to our equity base, in the future, at the same level as they have in the past?

Funding the business continued



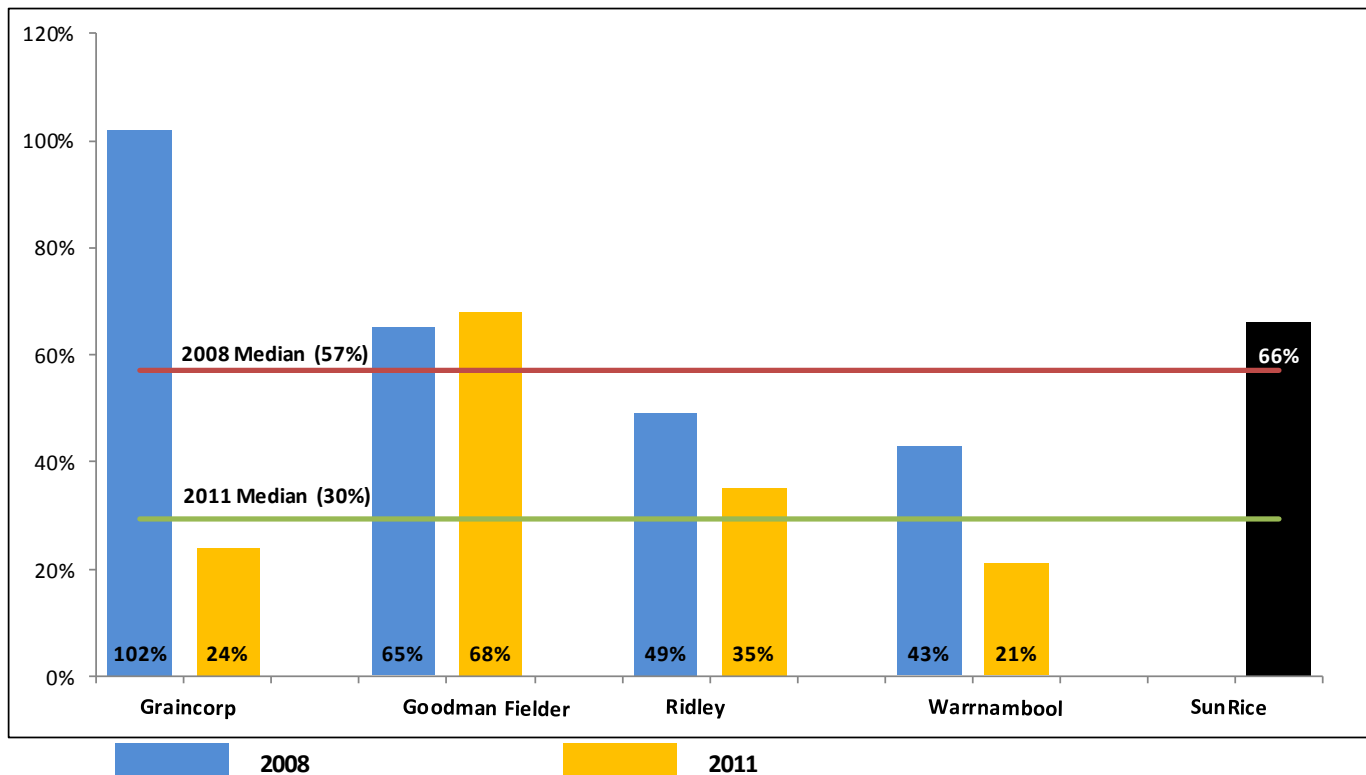
Funding - gearing

- Since the high of 2007, SunRice has made significant inroads in reducing its gearing. This has mainly been achieved through reductions in working capital, retained profits, capital raising and lower capital expenditure vs. depreciation.
- We are improving our gearing, but it is higher than our peers.



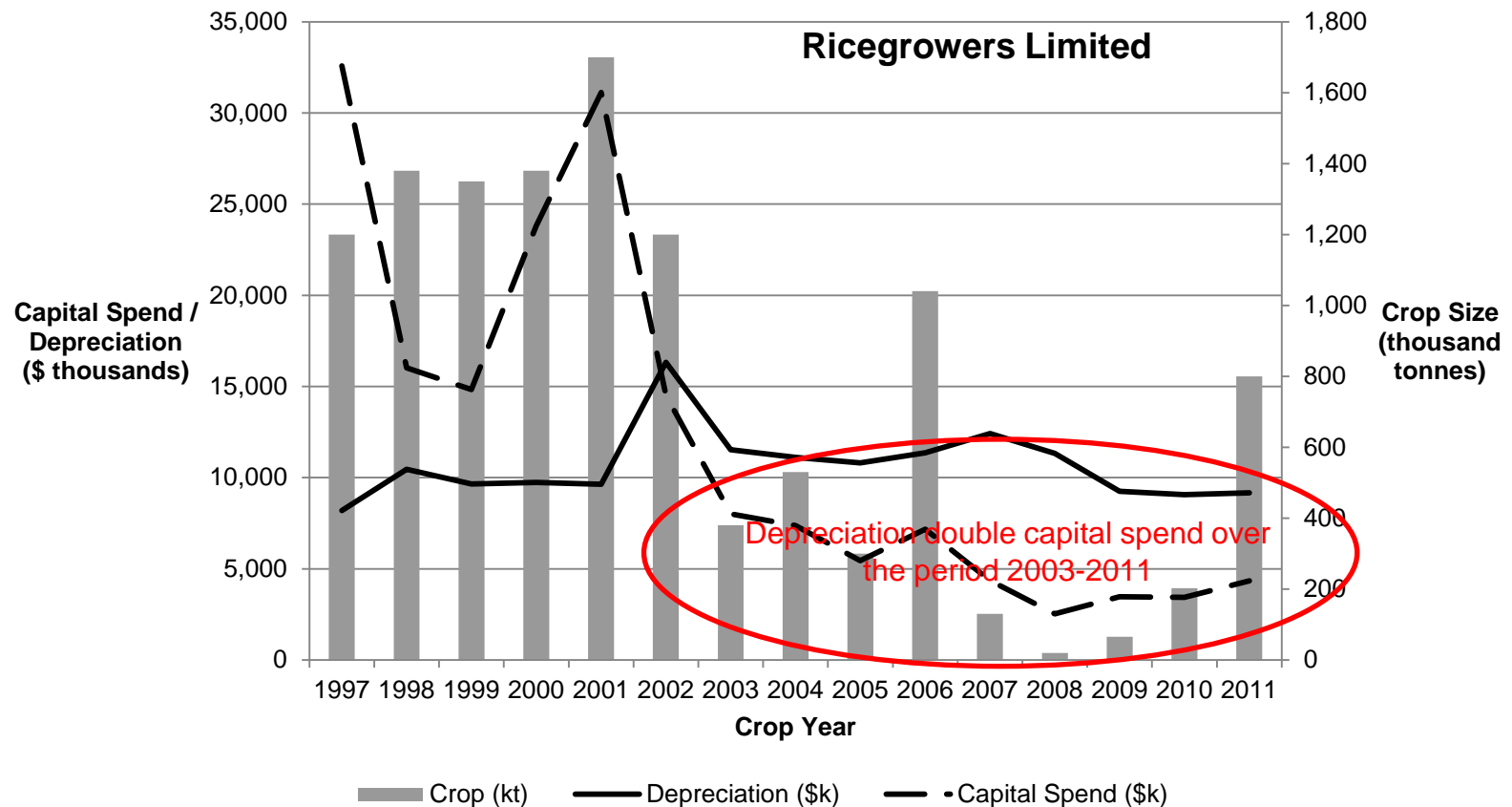
Funding – gearing continued

- Our peers have also continued to de-leverage and have a median gearing of 30%.
- RL needs to continue to de-leverage to strengthen its balance sheet and provide the capacity to fund growth opportunities in our core businesses.



Funding the business continued

- A reduction in capital investment during the drought has assisted with our debt reduction, but future capital expenditure and investment to renew assets will be required in the next few years.



Funding / profit source – non Australian rice businesses

- Diversified earnings have been key to our strength.
- Non Australian rice businesses deliver profit and returns for equity investors and support the rice business in times of drought through paddy price supplements.
- C2008 provided a large trading profit, which will be difficult to replicate.
- As well as growing our Australian rice business, we must continue to invest and grow these businesses to grow shareholder value and provide resilience in case of drought.

Paddy price supplements

- Strong profits in non Australian Rice Milling and Marketing businesses ensured the business was able to supplement grower payments.
- Over the seven drought-affected years, approximately \$140 million was paid in paddy price supplements (an average of \$83 per paddy tonne).
- This was required to ensure we paid commercial paddy prices and to mitigate the impact of underutilised assets.
- In 2012, we retained \$16 million from the paddy price (\$20 per tonne).

Funding the business

- We are in the process of developing our strategic plan to innovate, invest and grow the total business (including returns on the rice business).
- This will require significant capital expenditure, for example:
 - Fumigation storage;
 - Distribution and supply chain improvements;
 - Expansion of businesses, e.g. stock-feed and meals; and
 - Renewal of operational infrastructure.
- Potential acquisitions would demand capital.
- We need access to capital to keep gearing manageable.
- There is a limit to what we can ask from our current shareholders.
- The illiquid nature of B Class Shares means there is limited or no access to new equity capital.

Funding

Discussion / Questions

Conclusion

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Summary

- The review's objectives are to:
 - Maintain a secure supply of Australian rice at a competitive price and provide transparency around paddy pricing.
 - Preserve the voting rights of current shareholders, and address anomalies within the share register and current structure.
 - Achieve a realistic market value for B Class Shares.
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Summary continued

- We will consider all reasonable structures and alternative options that have the potential to deliver a range of outcomes, including;
 - Higher value for shares;
 - Improved ability to access capital; and
 - Preserving voting rights on any change of control event.
- We will only put forward options that are appropriate for the company and that take into account your wishes.

Next steps

- Take on board your feedback from today.
- Further consideration of ideas and your feedback through other communication, including the website and hotline below.
- Further rounds of shareholder meetings to be held in early 2013.
- Website <http://capitalstructurereview.sunrice.com.au> including:
 - Online feedback form;
 - Copy of this presentation and other materials; and
 - Online question and answer feedback on key issues / points raised.
- Hotline established for questions and feedback - **1800 643 977**.
- Speak to your Directors.
- We look forward to your ongoing participation.

Thank you



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