2013 SunRice Annual General Meeting

23 August 2013

Jerilderie

Chairman's Speech

I would now like to say a few words.

2012/13 has been a year of re-investment for SunRice, and one which provided us with an opportunity to consider the shape of our company well beyond the drought that dominated so much of the last decade.

As in previous years, we've marked some incredible achievements and overcome many challenges during the past 12 months – emerging once again as a strong market leader with our eye firmly fixed on SunRice's future growth and potential.

This of course includes SunRice being named Australia's Regional Exporter of the Year at the 2012 National Export Awards – after receiving the same honour in New South Wales.

This achievement is wonderful acknowledgement of our return to the world stage and our position as one of Australia's most successful exporters of branded foods.

Before we go any further, I would like to focus for a moment on our headline results for 2012/13.

Our revenue result of 1.068 billion dollars represented a 6.8 per cent increase on last year's revenue of 1 billion dollars.

We achieved net profit after tax of $35.8 million across the group – a 5.5 per cent increase on last year's $33.9 million.

We were able to reduce gearing by a further five per cent during 2012/13, from 66 per cent to 61 per cent at year end.

In addition, we announced a fully franked dividend of 23.0 cents per share for B Class shareholders – a record for our company. More than $12.8 million in dividend payments were made to our shareholders as a result.

Although we are only two years on from the drought, we have rapidly returned to a position of strength.

The SunRice Directors and staff have been committed to this goal, and the improvement in our balance sheet reflects the hard work which has gone into bringing SunRice to this point. CEO Rob Gordon will go into more detail about our financial results shortly.

Of course one of our most pleasing highlights during the year was the strength of our Australian Rice Milling and Marketing business, which allowed us to deliver a significantly increased C12 paddy price to our growers.

The final return of $317.34 per tonne for medium grain represented more than $300 million in paddy payments that were made to growers across the Riverina and Murray.

This improved price is a fantastic achievement, despite competing against other countries which provide substantial subsidies to their rice growers.

I was fortunate enough to recently hear the Chief Operating Officer of the USA Rice Millers' Association speak on market access opportunities and challenges for U.S. rice.

If ever there was a demonstration of the value of vesting, this is it.

He shared that the average net returns for rice in Arkansas and Louisiana representative farms are below the cost of production, and have been for more than two years.

In 2013, Arkansas rice farms lost $200 for every acre of rice harvested, and in Louisiana, farmers lost $75 per acre.

USA Rice also recently co-sponsored a study to uncover subsidies for rice and other crops around the world. It found that the level of support for producers in many advanced developing countries has increased sharply and frequently exceeds WTO limits.

The study contrasts up to $231 US dollars per ton in available support prices for US rice farmers, with $627 per ton in Turkey, $500 per ton in Thailand and up to $440 per ton in China.

It is appropriate at this point to of course acknowledge the State Government's decision to retain rice vesting in New South Wales and SunRice's Sole and Exclusive Export Licence arrangements during the year.

The maintenance of these arrangements provided important stability for our industry in 2012/13, and allowed us to confidently invest for the future.

That confidence of course also extended to our growers.

In crop year 2013 our growers responded to the improved conditions with the biggest rice planting in a decade. You took advantage of some fantastic growing conditions to produce high yielding crops and return the industry's annual tonnage to its largest since 2002.

During the drought, it was difficult for many growers to envisage that we would ever reach these figures again. To see our industry produce an outstanding 1.16 million tonnes of paddy earlier this year was a rewarding result after many difficult years.

A wonderful side-effect of our third successive large crop was the reinstatement of the Coleambally Mill in an overflow capacity, which brought SunRice back to full-strength on the milling front. We have been extremely pleased to see the boost this has provided to the local community and economy.

Of course there are always some difficulties when it comes to marketing a crop of this size, particularly in light of the softening global rice market and a fluctuating Australian dollar.

As many of you would have heard at the recent RGA Branch Meetings, we are facing additional milling costs due to the above average levels of broken grains in the C13 crop – brought on largely by the hot weather during grain filling. We will have to sell more broken grains at lower prices as a result.

These will impact on paddy returns but, as we do every year, we will make every effort to return the best possible price result to our growers.

Accordingly, I am able to advise an indicative full year C13 paddy return for medium grain Reiziq of $260 per tonne.

I appreciate this may be lower than some of you were anticipating, but as I've just mentioned, we are facing significant challenges with this year's crop.

As I mentioned at last year's AGM, the rapid return of Australian rice to the world has also highlighted the need for our company to address some structural issues.

We began the Capital Structure Review more than 12 months ago, in an effort to set the direction for our company during a time of strength. We promised that we would consult with our shareholders at every step and will continue to do so.

The consultation program which has taken place during 2012/13 has been thorough and well supported by our growers and shareholders.

I want to thank you all for providing constructive feedback to guide the review forward. It's encouraging to see the widespread understanding that there is no quick solution to the unique challenges we face.

I also want to emphasise the fact that we have listened to you and know that existing A Class shareholder rights and controls must be preserved.

As I've just mentioned, we face a unique set of challenges, and the solution we have been working on with Macquarie Capital, is also unique.

As soon as we are confident that we have the right answer, we will share this with you. At that time, I encourage you all to participate. There will no doubt be a lot to consider and it is our strong desire that everyone has an opportunity to make an informed decision.

In the meantime, we do have a number of items to vote on today – including:

- Proposed changes to A Class Share Qualification;
- Proposed changes to Board structure and remuneration; and
- The election of External Director Peter Margin.

I would like to briefly outline the rationale for these motions, to ensure everyone understands why these changes are proposed.

The first matter I wish to address is the proposed change to A Class Share Qualification.

As you know, the Board has been reviewing whether the current qualification criteria appropriately reflect commercial farming arrangements.

We have now completed this review, which has included consultation with A Class shareholders and the establishment of enhanced review procedures to ensure that we are satisfied that the paddy rice supplied by an applicant for shares is their own.

In line with the feedback we received from you, today's resolution seeks to increase the minimum rice delivery obligations for A Class Shareholders from…one tonne each two years…to 200 tonnes each two years.

This represents an average of 100 tonnes per annum in the prior two years from June 30, 2016.

This change is designed to ensure that the membership of the company reflects active growers who are engaged in commercial farming enterprises.

In addition, during our meetings, shareholders expressed a view that the associated investment in SunRice via B Shares was also too low.

Accordingly, there is a resolution before you to increase the minimum holding of B Class Shares that A Class Shareholders must hold from 1,000 to 3,000 B Class Shares.

This will also help ensure A Class shareholders have an interest in the financial performance of the company and that the interests of active growers are more aligned with the interests of other shareholders.

With respect to the proposed changes to the Board's structure and remuneration, I would like to address some misconceptions about these resolutions.

There are three components to be considered and I would like to step through each. Let me start with the proposal to reconfigure the Board.

We received very clear feedback that shareholders can see the benefit in adding the knowledge and skills of an additional External Director, provided grower control of the Board was maintained.

As a result, we are asking A Class shareholders to reconfigure the SunRice Board to comprise 11 Directors; seven of whom are grower Directors and four of whom are non-grower Directors.

This will allow us to recruit an additional External Director – broadening and building on the expertise our existing Directors bring to the table. Like you, we see this as an important step as we look to strengthen SunRice for the long term.

We are also seeking flexibility to reduce the size of the Board in the future.

Many of you will have heard me speak on this at the RGA Conference and I wish to emphasise that our Constitution requires that the Board must consist of a majority of Grower Directors. This will not change.

However a Board of 11 is large by Australian standards. And while there are no plans to reduce the number of Directors at the moment, there may be in due course.

I think everyone on the Board – and probably everyone in this room – recognises that we have a lot of very good Directors, but we also have a lot of very similar skills.

This resolution seeks the flexibility to reduce the number of Directors in the future by way of an ordinary resolution, which requires 50% of A Class Shareholders to vote in favour.

Let me be very clear on this point – this is not a proposal to remove the majority control that Grower Directors enjoy, nor could such a resolution even be considered under these terms.

Why are we so certain on this point?

Because the Constitution states that notwithstanding any other provisions, a majority of Directors on the Board must be Grower Directors.

What we're talking about today is ensuring the right people and the right mix of people are sitting at the table, now and in the future. That means even if a smaller board is passed by a 50% vote in the future, it still must have a majority of grower Directors.

The only way this can change is if a 75% Constitutional vote passes, and you have told us very clearly that grower control must be maintained.

As part of the review of SunRice's Board structure, we also considered the remuneration required to attract and retain the highest quality Directors to guide what is a complex international company.

As part of this, we engaged expert remuneration consultants to consider the remuneration practices of comparable companies.

The consultants concluded that our Directors' fees were on average below those of comparable companies.

The recommendation before you is to increase SunRice's total fee pool for Non-Executive Directors from $750,000 to $1.1 million.

We realise this is a sizeable pool. We have a sizeable Board.

I want to clarify that the increase in the fee pool will not translate into a comparable pay rise for each Director.

Rather it will allow us to do three things:

- To recruit an additional Director at a fair rate, should the earlier resolution be passed;
- To increase existing Directors' fees to fair rates, including remunerating committee and other responsibilities that are not currently provided for in the fee pool; and
- To provide some headroom for growth for the future.

External Director and the Chairman of our Remuneration Committee, Grant Latta, will talk to you about this in more detail later. However, there are a couple of points I wish to make.

Since 2002, this is only the second time the Board has sought a remuneration increase.

Also, it is accepted and good corporate practice to seek a fee pool that allows us to plan for the next three years rather than come back to you every year.

If approved, these changes will ensure your Directors are remunerated at a fair and reasonable rate in line with comparable companies, while also ensuring we can attract and retain the highest quality candidates in the future.

It shouldn't be assumed that by reducing the size of the Board in the future, we are seeking to increase Directors' fees. There is no requirement to expend the fee pool in full in any year.

Finally, today you will also be asked to endorse Peter Margin as an External Director for a period of two years.

Peter has significant food industry and agribusiness experience and was appointed to fill a casual vacancy in 2012 in the wake of Russell Higgins' retirement.

He has proved a valuable addition to the Board and has made a substantial contribution to the Finance and Audit, and Remuneration Committees, as well as in matters related to the Capital Structure Review.

The Board unreservedly recommends Peter to A Class shareholders for election as a non-grower External Director for a further two years until August 2015.

Each of these resolutions has been brought forward for consideration to benefit SunRice and you as shareholders and we ask that you vote favourably when the time comes.

I would like to acknowledge my fellow Board members and Deputy Chairman, Mark Robertson, for their work this year and their continual loyalty and dedication to our company.

I would like to recognise the fantastic efforts of our Corporate Management Team this year, and thank CEO Rob Gordon for his commitment to taking our company forward.

We have an incredible wealth of talent within SunRice and this is obvious in the outstanding results we have achieved during the past 12 months.

The Ricegrowers' Association of Australia has continued to provide leadership for our industry, guided by President Les Gordon and Executive Director Ruth Wade.

Our growers and shareholders also deserve praise for their continued support of our company and their continued willingness to consider and in many cases, embrace change. It's one of the things that makes this industry so successful.

In closing, it has been a very exciting year for SunRice as we chart a new course for our company through re-investment and growth, and addressing the challenges and opportunities which lie ahead.

Having recovered from drought, reduced our debt and gearing, and reclaimed our world markets, we are now well placed to consider a pathway that will ensure SunRice can continue to benefit our growers, shareholders, employees, consumers and regional communities for generations to come.

Each of you has an integral part to play in that process and we welcome your involvement.

Thank you.