



To: The Directors of Ricegrowers Limited

Independent assurance report on the calculation of the Paddy Price in accordance with Schedule 1 of the Paddy Pricing Policy

Scope

In accordance with the terms of the engagement letter dated 19 June 2019, we were engaged by Ricegrowers Limited to perform an independent reasonable assurance engagement in respect of the Paddy Price set by Ricegrowers Limited (the “Company”) for the year ended 30 April 2019 (the “Period”). The Criteria against which we assessed the calculation of the Paddy Price are described in Schedule 1 of the Paddy Pricing Policy approved September 2018 which is attached to this opinion in Appendix A.

Directors’ responsibilities

The Directors are responsible for setting the Paddy Price and for calculating it in accordance with Schedule 1 of the Paddy Pricing Policy.

Our Independence and Quality control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, the firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express an opinion based on the procedures we have performed and the evidence we have obtained.

Our engagement has been conducted in accordance with the Australian Standard on Assurance Engagements (ASAE 3000) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the Paddy Price has been prepared, in all material respects, in accordance with the Criteria, for the Period. The nature, timing and extent of procedures selected depend on the assurance practitioner’s judgement, including the assessment of the risks of material misstatement, whether due to fraud or error, in the Paddy Price. In making those risk assessments, we considered internal control relevant to the Directors’ calculation of the Paddy Price. Our procedures included:

- Understanding and evaluating the processes supporting the Paddy Price calculation
- Assessing the reasonableness of revenue and cost allocation methodologies
- Analytical review of key elements of the calculation

PricewaterhouseCoopers, ABN 52 780 433 757

*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*



- Sample testing of revenue and cost allocations

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of report

This report was prepared for the Directors of Ricegrowers Limited for the purpose agreed in our engagement letter with Ricegrowers Limited. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Directors of Ricegrowers Limited, or for any purpose other than that for which it was prepared.

Inherent limitations

Because of the inherent limitations, it is possible that fraud, error or non-compliance may occur and not be detected. An assurance engagement is not designed to detect all instances of non-compliance of the Paddy price calculation with the Criteria as it is not performed continuously throughout the Period and the assurance procedures performed are undertaken on a test basis. The reasonable assurance conclusion expressed in this report has been formed on the above basis.

Conclusion

In our opinion, in all material respects, Ricegrowers Limited has calculated the Paddy Price in accordance with Schedule 1 of its Paddy Pricing Policy for the year ended 30 April 2019.

A large, stylized handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature of 'P.J. Carney' in black ink.

Paddy Carney
Partner
PricewaterhouseCoopers

Sydney
27 June 2019



Appendix A

Schedule 1 of the Paddy Pricing Policy

1. Revenue

- 1.1 Revenue is derived from sales of Paddy and milled rice products produced from Paddy to both domestic and export customers. Revenues are assigned to the Pool based on the actual sales, including sales to SunRice's subsidiaries and other divisions.
- 1.2 Where sales are made in a foreign currency, these are translated at the budget foreign exchange rate. Foreign exchange gains or losses are allocated to the business units based on the foreign exchange denominated revenues and expenses in the business unit in respect of the relevant Crop. These gains or losses represent the difference of the actual foreign exchange contracts entered into for the Pool compared to the budget foreign exchange rate.
- 1.3 Other revenues derived from pool related activities, mainly comprise of seed sales.
- 1.4 Any other revenues identified by the Board in conjunction with SunRice management in accordance with Clause 6.2 of the policy.

2. Expenses

- 2.1 The following expenses are generally included in a Pool:
 - (a) Expenses incurred in the production of rice products that includes:
 - (i) Direct expenses such as manufacturing expenses and sourced materials as consumed from inventory holdings, such as packaging material, customs charges, quality inspection costs, and other inputs;
 - (ii) Indirect expenses, which are comprised of general operations management, general logistics management, quality, supply chain, planning, engineering, IS recharges, micro laboratory, health & safety, SRFG shared expenses and other indirect expenses. These expenses are allocated based on either inventory SKU volumes, net sales value (NSV), headcount, shipping volumes, proportionate use of assets and time spent based formulas of operations management. The allocations are based on either budget or actual information;
 - (b) Paddy handling expenses, as incurred in receiving and storing of Paddy, Paddy transport/movements, harvest expenses and aeration, as charged by AGS at arms length rates;
 - (c) Paddy varietal premiums and discounts that are charged to Pools in which those varieties are included. The varietal premiums are reviewed and approved annually by the Grower Services Committee;



- (d) Cost of processing at Aqaba Processing Company (**APC**), being the cost of storing, sorting and packing Paddy and finished product at APC sold in the Middle East markets;
- (e) Distribution expenses, which includes:
 - (i) Direct expenses as incurred in transporting rice products from the manufacturing facility to the domestic or export customer;
 - (ii) Indirect expenses, which are comprised of distribution overheads, STO freight on imports and other indirect expenses. These expenses are allocated based on either inventory SKU volume, shipping volumes or proportionate of use of assets. The allocations are based on either budget or actual information
- (f) Paddy carryover in accordance with SunRice's Carry-over and Carry-in Policy;
- (g) Sales and marketing expenses, which includes:
 - (i) Direct expenses such as advertising, promotional spend, employee and other costs associated with sales of rice products;
 - (ii) Indirect sales & marketing expense, IS recharges and other indirect expenses, which are allocated based on revenue and headcount. The allocations are based on either budget or actual information;
- (h) Admin expenses, which includes:
 - (i) Direct expenses such as Grower Services operating expenses, RMB fee, RGA support, RRAPL research and development contribution and Rural Industries Research Development Corporation levy as defined in clause 5.1;
 - (ii) Indirect expenses such as business support services, finance support services, Corporate & Director costs, Information Services, Research & Development, Specific Projects, Office costs and other indirect expenses. These expenses are allocated based on either net sales value (NSV), shipping volumes, headcount, number of computers, number of SAP licenses and time spent based formulas. The allocations are based on either budget or actual information;
- (i) Sole and exclusive export charge, being the amortised costs of SunRice maintaining its single desk export rights, including amounts payable to the RMB;
- (j) An Asset Financing Charge, calculated on the net assets (excluding cash and borrowings) including AGS non-current assets (net of bank borrowings) used by the Rice Pool at the cost of equity, which is calculated using widely available market indices and is approved annually by the Board.



- (k) A Seasonal Debt cost recharge, calculated based on the Pool's proportionate usage of the Seasonal Debt facility. The amount the Pool requires is deemed to be $(\text{Pool Inventory} - \text{Grower Payable}) / \text{Seasonal Debt}$.
- (l) Other income or expenses such as:
 - (i) AGS management fee (income or expense) that is the excess profit/(loss) from the AGS P&L over and above their portion of the asset finance charge, amortised into the corresponding crop year;
 - (ii) Trukai franchise fee that is a royalty charged on in-market branded sales;
- (m) Trade mark use charge or "Brand Charge", being a charge for the use of trade marks on packaging for rice products, at rates determined by the Board with reference to the investment required in the trade mark, its strength and the relevant market;
- (n) Impairment, and the reversal of any previous impairment, of the inventory or fixed assets of Australian Rice Milling and Marketing;
- (o) Irrigation water procurement for rice production, as incurred for the production of Paddy; and
- (p) Any other expenses identified by the Board in conjunction with SunRice management in accordance with Clause 6.2 of the policy.

3. Transfer Prices within SunRice

- 3.1 The following transfer prices apply to Paddy and rice products supplied to, or sourced from, other business units within SunRice by the Australian Milling and Marketing:
 - (a) Rice by-products or downgraded rice products may be consumed by CopRice. The transfer prices of these products supplied by the Pool to CopRice are benchmarked annually to the wheat price. This is set in March of each year.
 - (b) Broken rice supplied by the Pool for flour milling is benchmarked annually to the Creed Rice Index or market price for brokens. This is set in March of each year.
 - (c) Rice products supplied by Australian Milling and Marketing to be used in rice cakes or retort products are at SunRice's Paddy Price for the relevant Crop.
 - (d) Goods & other services to other related parties within the SunRice group comply with the arm's length principle as set out in transfer pricing guidance issued by OECD.

4. Final Paddy Price

- 4.1 In accordance with Clause 2.4c of the policy, the Board determines the final Paddy price and, if in the best interests of the business, has discretion and the ability to override to Rice Pool "Paddy Price" Calculation detailed in this schedule.