

Chairman Mr. Laurie Arthur's Address

SunRice AGM

Thursday, 25 August 2016

Jerilderie Civic Hall

33 Jerilderie Street, Jerilderie

Good morning and welcome to the 2016 SunRice Annual General Meeting.

I am very pleased to be standing in front of you here today as Chairman at my second SunRice AGM.

Financial Year 2016 was a year in which we continued our track record of balancing the interests of both A and B Class shareholders, while focusing positively on the future.

As Rob will share shortly, sustained business performance, built off the back of SunRice's Group Strategy, enabled us to deliver excellent returns for all our shareholders.

For our SunRice A Class Shareholders and growers, we confirmed a 2015 Crop paddy price for medium grain Reiziq of \$403.60 per tonne and a paddy price for Koshihikari of \$533.60 per tonne.

This represented a 2.3% uplift in pricing year-on-year and a total of \$288 million paid out to our growers in the Riverina.

For our SunRice B Class Shareholders, the Board was pleased to confirm a record dividend of 33 cents per B Class Share for Financial Year 16, in which the 2015 Crop was marketed. This represented a dividend increase of 6.5% year-on-year.

As I've shared on many occasions and want to keep emphasising to you, Riverina Rice remains the cornerstone of our Rice Pool Business and its quality and provenance is key to obtaining premium pricing in many of our export markets. It also represents an important element in assisting SunRice efforts to access new and attractive markets.

In line with SunRice's operating structure and strategic goals, a strong Riverina grower base remains in the best interests of SunRice and both A and B Class Shareholders.

As a result, during the year we provided a fixed price for the 2016 Crop of \$415 per tonne for Reiziq in response to poor water allocations. Pleasingly, this encouraged plantings that provided 244,184 tonnes of valuable Riverina rice for our key markets.

A limited volume fixed price contract for the 2017 Crop - priced at \$400 per tonne for Reiziq – was also introduced and quickly filled. This early initiative was designed to enable our growers to better manage risk and to secure rice for our Riverina facilities. However, it is prudent to note that the 2017 Crop pool result, which will apply to paddy outside of the fixed price contracts, will not be finalised until July 2018.

I should also note that the fixed volume secured – while critical – is now likely to be well under 10% of the total anticipated crop size. This contract was deliberately intended as a

strategic measure to assist growers in minimising risk, which would have minimal impacts on overall pool returns.

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That said, Financial Year 2017 is shaping as a period that is likely to be dictated by market uncertainty for SunRice. We presently face challenges such as the potential oversupply of Medium Grain in world markets, and challenges in Papua New Guinea.

As we informed you earlier this month, the PNG Government's Department of Agriculture and Livestock – otherwise known as DAL – has indicated that a proposed quota system will be implemented for PNG's domestic rice market.

The quota system outlined by DAL proposes giving Naima Agro-Industry Ltd 80% of the PNG rice market, with other participants, including our subsidiary Trukai Industries, to share the remaining 20%.

In Financial Year 2016, sales by Trukai in PNG contributed \$364 million of the aggregate \$1.3 billion of revenues received from external customers and made a substantial contribution to the net profit before tax reported by SunRice.

If the quota system were to be introduced, we anticipate that it could have a substantial negative impact on SunRice's financial performance, in the absence of mitigating business strategies.

We are currently investigating and assessing the full extent of such impacts, including the options to challenge the quota's implementation, and will continue to keep you updated.

It's important to remember that we have multiple markets around the world in which to place your rice and we already have a higher demand for branded rice products than we can supply from the Riverina region, in a normal crop year.

Based on anticipated water availability, I am certainly intending to maximise the rice crop I plant this year and I encourage each of our growers to do the same in the months ahead.

SunRice has existing and growing markets for our rice that we need to service and sustain, even if disruptions in the PNG market do eventuate at some point in the future.

For now, it is 'business as usual' and that means we need and want a full crop in the year ahead.

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Of course recent events in PNG highlight how business conditions can change for a company like ours overnight.

Markets open and close. Competitors emerge. Operating conditions change. And as we know here all too well, climatic conditions or water policy can adversely affect supply – and paddy prices - year to year.

The dynamic business environment we're facing in Papua New Guinea right now is a perfect example of why the Board is recommending a new structure that enables quick and efficient access to equity capital. In times like this, SunRice has to be both resilient and nimble in how we respond and, depending on the challenge, the funding required may not always be able to be resourced from our existing balance sheet.

The Board is clear that the Capital Restructure is the model that will enable us to best respond in an increasingly competitive and unstable environment.

The Restructure is designed to equip SunRice and all growers and shareholders for the future by enabling the company to:

- Invest for growth;
- Better manage business risk – like the issues we face today and the ones we don't even know about in the future; and
- Have greater resilience.

Importantly, this includes creating a global business of scale that can pursue strategies to maximise the paddy price per tonne for Riverina growers and deliver dividend and capital growth for investors.

Following excellent progress in finalising documentation for the proposed Capital Restructure, the Board and I were disappointed to announce in May a delay in the timetable for a vote after a joint venture partner signalled its intent to review its own joint venture arrangements, including with SunRice. As a result, we are unable to finalise the Capital Restructure documentation while this review is ongoing.

Despite the delay, the Directors and I were encouraged by the support for the Capital Restructure expressed by shareholders and growers at meetings we held in June 2016. We remain firmly focused on progressing to a vote once the current issues are resolved, although given all that has and is happening, this is unlikely now to occur in the current financial year.

In light of this, the Board and I will be considering if there are elements of the Restructure that we can progress in the interim.

The Board and I remain clear that the Capital Restructure is in the best interests of the business, growers and shareholders, and will create a strong base for decades to come, while preserving grower control.

We are committed to the Restructure's success and I'm pleased that so many of you have shared similar sentiments since we announced the delay.

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Finally, the ongoing success of the Australian rice industry and the SunRice Group has many contributors.

I'd like to thank:

- The Ricegrowers' Association of Australia (RGA), in particular new President Jeremy Morton
- The Rice Marketing Board (RMB) and Chair Robyn Clubb; and
- The many federal and state government departments who contribute to our combined strength.

Special thanks in particular to the many Federal Government ministers who quickly and ably assisted us in engaging with the PNG Government over recent issues, including:

- Deputy Prime Minister and Minister for Agriculture and Water Resources, the Hon. Barnaby Joyce MP;
- Minister for Trade, Tourism and Investment, the Hon. Steven Ciobo MP;
- Assistant Minister for Trade, Tourism and Investment, the Hon. Keith Pitt MP; and
- Minister for Health, Aged Care and Sport and Member for Farrer, the Hon. Sussan Ley MP.

I would also like to thank the State Government ministers who continued to support SunRice throughout the year, including:

- NSW Minister for Education and our local Member for Murray, the Honorable. Adrian Piccoli MP; and
- NSW Minister for Primary Industries, Lands and Water, the Honorable Niall Blair MLC.

As you will be aware, the NSW Government's Department of Primary Industries (DPI) will conduct its review of rice vesting this year.

Rice vesting and the retention of SunRice's Sole and Exclusive Export Licence (SEEL), enable us to deliver export price premiums to Riverina rice growers, helping to maintain a competitive advantage for NSW-grown rice.

As many of you know, SunRice has an outstanding track record of achieving price premiums for NSW growers through vesting. In 2015 alone, we delivered an export price premium to growers of \$82 million.

Importantly, the vast majority of rice growers support the continuation of current vesting and SEEL arrangements:

- 93% of all submissions in the last review of vesting by the NSW Government were in favour of its retention; and
- All branches of the Ricegrowers Association of Australia (RGA) have passed unanimous motions of support for the current review.

I urge all growers and stakeholders to again support DPI in this process, particularly given the significant financial benefits the Sole and Exclusive Export Licence (SEEL) delivers. It is extremely important that each of you demonstrate your strong support for vesting and the SEEL and we encourage you to make submissions as part of the review.

SunRice will also provide submissions in support of continuing the current vesting and SEEL arrangements to assist both the NSW Department of Primary Industries and the federal Productivity Commission in their reviews.

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In closing, I thank my fellow Directors, including new External Director Ian Glasson, who we welcome, and CEO Rob Gordon, who continues to achieve great things for our company.

I thank our Corporate Management Team and all SunRice Group employees for their exceptional results in some challenging conditions.

And I thank our growers and shareholders, for your ongoing support and commitment to a strong company and a strong industry, for all.

I would now like to invite Rob Gordon to the lectern to present his CEO's report.