Crop Carry Over and Crop Carry in Policy

March 2022

INTRODUCTION

The purpose of this policy is to provide a consistent methodology to value the transfer of Paddy and Finished product inventory between crop years.

The Finance, Risk and Audit Committee followed by the Board must approve any variation to this policy.

This policy applies only to Riverina grown rice and covers the valuation of both Raw Paddy and Finished Product inventory.

RESPONSIBILITY

Key area of business responsible for using Policy	Finance
Position responsible for final review & approval	RL Board
Position responsible for enforcing this procedure	Chief Financial Officer
Position responsible for updating this procedure	Head of Group Finance

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1. Background & Basic Principles

In any given year the Pool should receive the net benefit of all the revenues and costs associated with the crop it has grown and supplied to SunRice in that particular year.

Crop harvest generally occurs between March and May and the new season crop needs to reach certain moisture levels before it can be used in production. At the same time, the business needs to supply product on an ongoing basis to customers and run an efficient milling program. As a result, both raw paddy and finished product inventories are carried over between crop years.

Carry-over is defined as products that are not sold in the year crop is harvested and are "carried-over" from one year (Year 1) to the next (Year 2). In order to provide a price to growers at the end of Year 1, a value has to be given to the volume carried over and which is included in the calculation of the Paddy Price.

This policy has been developed to ensure the valuation methodology achieves the following objectives:

- Being Fair and Equitable for all growers;
- Simple and can be consistently applied;
- Auditable – minimal subjective inputs with the ability to capture and clearly document decisions through existing business processes.

In the event that a crop is carried over multiple financial years, there is no change to the original valuation performed at the end of Year 1 of that particular crop. It is carried forward at the remaining unamortised Raw Paddy inventory valuation.

In the situation where carry-over includes volume from a fixed price contract, for a particular varietal or entire crop, the price paid is included in the input cost of the rice for determining the value of the varietal.

This policy is applied consistently in any given year.

2. Crop Carry Over

Crop inventory is managed on an ongoing basis throughout the crop year as part of the S&OP cycle with a view to maximise the supply of paddy to markets that have demand and can afford the premium associated with the provenance of Australian rice.

Crop is carried over in two forms:

- Raw Paddy, including blocked stock, which has not undergone any manufacturing process;
- Finished product.

Raw Paddy is split and valued under the following methodologies:

- Business Continuity volume - Calculated at 8 weeks[1] of each varietal with any balance up to 100kt applied to medium grain, valued as if it had been sold in the current year by taking current year (Year 1) average Gross Profit margin for the varietal (revenue less costs of manufacturing and getting to a storage location), less Freight Out costs (cost from storage location to customer);

1 In regular years, 8 weeks is considered an appropriate estimate of the average time required before the new crop is available for sale. In exceptional circumstances however, Management may decide to increase/decrease this limit (for instance if there is a strong prediction at budget time that the following crop year will be impacted by drought or a large incoming crop) and bring this to the attention to the Board.

- Strategic volume - Defined as decisions taken to explicitly increase/decrease the carry-over for valid business reasons. The crop is valued based on the profit that would have been made had it been sold in the current year to an average Gross Profit margin (same valuation methodology as Business Continuity volume) or if applicable the Gross Profit margin of a substituted market;

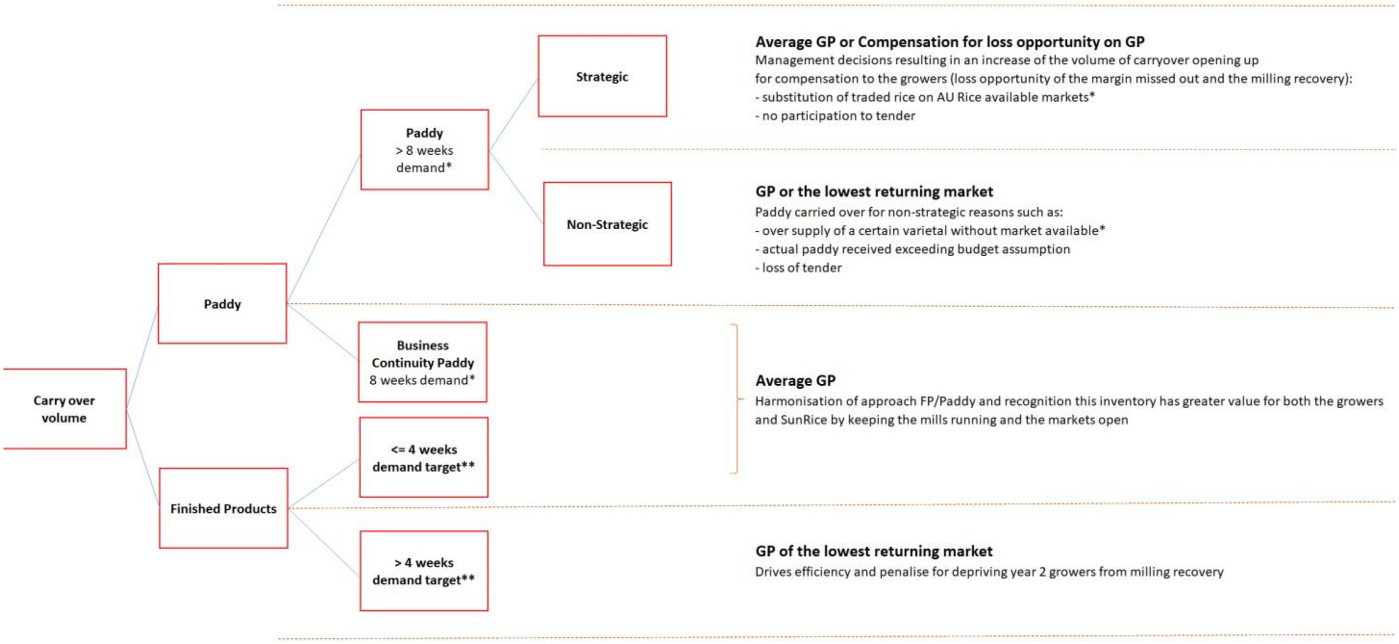
- Non-Strategic volume - Defined as circumstances that impact carry-over, but are not the direct result of decisions by management. The crop is valued using the lowest returning market serviced in the current year (Year 1). Lowest returning market is determined based on Gross Profit margin return to the Pool considering the acceptability/affordability of Australian rice. For the purpose of determining the lowest returning market, outlier markets are excluded. The crop is also charged for interest and paddy storage and handling costs that will be incurred by the business for carrying over that crop.

Finished product is split and valued under the following methodologies

- The first 4 weeks[2] of Finished Product volume is valued as if it had been sold in the current year (same valuation methodology as Raw Paddy Business Continuity volume);

- FP volume in excess of 4 weeks is valued using the lowest returning market serviced in the current year (same valuation methodology as Raw Paddy Non-Strategic volume).

The above principles are further illustrated in the diagram below



Notes

** In regular years, 8 weeks is considered an appropriate estimate of the average time required before the new crop is available for sale. In exceptional circumstances however, Management may decide to increase/decrease this limit (for instance if there is a strong prediction at budget time that the following crop year will be impacted by drought or a large incoming crop) and bring this to the attention to the Board*

*** target volume subject to be revisited overtime based on anticipated market demand and inventory management*

3. Crop Carry In

Should the need arise to use the new crop to meet demand markets towards the end of the current crop year, the net profit of those sales should be transferred to the new crop.

Net profit is determined as average paddy price per tonne of the current year, before carry-over adjustments

2 Target volume subject to be revisited over time based on anticipated market demand and inventory management

4. Determining the final Paddy Price

Once all carry-over inventory has been valued the final paddy price needs to be calculated. This is done by adding the carry-over margin of raw paddy and finished products to the existing profits of the Paddy P&L. This profit is then divided by the adjusted total size of the crop, the result being the final paddy price to be paid to the growers.

The adjusted total size of the crop is the total volume harvested less the volume of seed (when relevant) as well as inventory used by the Rice Food segment. It is assumed that this volume is valued at the final paddy price and does not enter into the calculation to determine the paddy price.

This Policy is designated a key policy of SunRice and is subject to the periodic review and approval of the SunRice Board.

DOCUMENT CONTROL

Version	**Date**	**Approved by**	**Sign-off date**
3	March 2022	SunRice Board	March 2022