



SunRice Shareholder Workshop

September 2015

Strategic Context

- SunRice's recovery post drought signalled an opportunity to assess the Group's future direction.
- A comprehensive strategic review was undertaken in 2012/13, which informed the current SunRice Group Strategy.
- The Strategy recognises our current place in rice trade:
 - o Australia comprises 20% of total global Japonica exports (2.2mmt per year), vs. 36mmt of other rice varieties exported annually, and a total global production of 470mmt of rice (all varieties).
 - o Like many other branded agri-products, domestic trade lacks scale.
- It also identified opportunities to strengthen returns for rice by:
 - o Focusing on higher value markets;
 - o Optimising our product and varietal mix to improve profitability and meet consumer needs; and
 - o Building on our capabilities as an international branded value add company to differentiate us from commodity traders.

SunRice Group Strategy – Results to Date

- The SunRice Group Strategy aims to substantially increase annual revenue, optimise grower returns, grow shareholder value and increase resilience of earnings, and maintain or improve Return on Capital Employed.
- It includes six strategic priorities, which apply to every SunRice Group business (more information can be found in the SunRice AGM presentation on the NSX or SunRice website).
- To date, the Strategy has delivered impressive results, including between FY12 and FY15:
 - o Increasing revenue by 24.6%
 - o Increasing net profit after tax by 116.5%
 - o Increasing return on capital by 410 basis points
 - o Increasing paddy price by 43.5%
 - o Reducing gearing by 33.4%
- The SunRice business is now well positioned for the future, but faces both challenges and opportunities.

Challenges and Opportunities

- Access to Riverina rice will always be fundamental to SunRice's success and priority will always be given to locally-produced rice.
- However, like other Australian agribusinesses, water availability and production constraints impact our growers and our business.
- Maintaining global presence irrespective of Australian crop conditions is critical and is expected by our global customers.
- Fulfilling this demand is in growers' and shareholders' best interests. It:
 - o Provides greater choice for Australian rice and the ability to maximise paddy returns; and
 - o Allows the business to better reduce business risk and increase resilience against economic, production and other shocks.
- Sourcing of non-Riverina rice plays an important role in planning for and responding to these constraints, and for maintaining global markets and assets for our Riverina growers during exceptional circumstances.
- Sourcing is now a fundamental part of SunRice's business. In addition to investments made in North Queensland and Papua New Guinea, we are investigating other rice origins.
- A range of evaluation criteria apply to assessing a region's suitability as part of our global sourcing strategy, including political environment, economic development status, agronomics, business environment, materials and labour and ownership options and governance.

The Need for Change

- Global consolidation is occurring at pace across food and agriculture industries and means potential new players in rice markets. This is both a threat and an opportunity.
- We have an opportunity to reshape our structure to create a strong independent Australian-controlled food business of scale on our terms, to benefit all growers and shareholders.
- However, investment is likely to be required to do this, including access to a larger pool of equity capital than is currently available.

The Capital Structure Review

- The Capital Restructure seeks to address both the challenges and opportunities faced by SunRice by providing access to a deeper pool of equity capital than is currently available, while preserving the following fundamental elements of the SunRice business:
 - o The SunRice Board would continue to comprise a majority of Grower Directors;
 - o There would be no change to how paddy prices or dividends are determined currently, protecting both sets of shareholders' interests; and
 - o The key features of our current structure would continue on an ongoing basis, specifically:
 - A Class shareholder control (or grower control), including a requirement that 75% of A Class shareholders vote in favour of any changes to the SunRice Constitution and approve any offers from a third party to take over SunRice; and
 - B Class shareholders would maintain economic rights in SunRice.
- The potential model presented to shareholders for feedback involves a modified listing on the ASX that preserves grower control, similar to Devondale – Murray Goulburn and Fonterra.
- Importantly, if the proposal proceeds, SunRice and A Class Shares will NOT be listed on the ASX. A separate entity called the SunRice Fund will be listed on the ASX and will trade SunRice B Securities rather than B Class Shares.
- If implemented, the SunRice business will remain intact exactly as it is today, with the same Board, management and operating structure.

Fundamentals of the Model

- No fundamental change to A Class Shares or A Class shareholder control.
- The creation of the SunRice Fund, to be listed on the ASX, and the issue of SunRice B Securities to existing B Class shareholders on a one for one basis for their B Class Shares.
- B Class Shares are modified, renamed "B Preference Shares" and transferred to the new SunRice Fund.
- Dividends from the B Preference Shares will flow through to the SunRice B Securityholders.
- Once listed on the ASX, the SunRice B Securities will become tradeable and may be purchased by investors generally. This open market provides a greater number of potential shareholders and is therefore expected to be far more liquid than is currently the case on the NSX.

Grower Control

- Preserving grower shareholder control as it is today is non-negotiable for the SunRice Board and for the majority of our shareholders, who provided this feedback during the Capital Structure Review.
- Grower control means the sole right of A Class shareholders to vote at SunRice general meetings, which gives grower shareholders the right to elect Directors, make changes to the Constitution and – as a result - control the company.
- External investors will not have voting rights in SunRice and they CANNOT acquire them in the future without A Class shareholder approval. Investors are acquiring a non-voting security – an economic right to receive a dividend from SunRice – that is all.
- As a result, these securities may trade at a discount compared to companies with a single class of voting shares. That discount reflects that investors do not have voting rights in SunRice and that grower shareholders will continue to control the Board and SunRice.
- Investors will come into this structure knowing that they have no right to vote at general meetings and therefore no right to change the Constitution or to appoint Directors. All of these control mechanisms will remain with SunRice A Class shareholders as they do today.
- Even if an investor acquires 100% of the SunRice Fund, senior counsel has confirmed that there is no legal basis for them to demand a seat at the board or voting control rights without the approval of A Class shareholders. Control of SunRice will remain with A Class shareholders irrespective of what happens in the Fund.
- The model we have developed is enduring. It does not contain a sunset clause or any of the elements that have seen other agricultural companies lose grower control on the ASX.
- As a part of the model, additional mechanisms have also been added to protect the integrity of the Fund, including:
 - o The SunRice Interest, which restricts changes that can be made to the Fund Constitution;
 - o SunRice's right to repurchase B Preference Shares at a discount if they are withdrawn from the SunRice Fund; and
 - o The removal of SunRice's obligation to reimburse the Responsible Entity's (RE) expenses if SunRice is no longer the RE.
- As per above, neither an acquisition of ALL B Securities, a change to the SunRice Fund Constitution, nor a new RE will impact control of SunRice, which will remain with A Class grower shareholders.
- The only way grower shareholder control rights could change, or a takeover of SunRice could proceed, is in the same way it is handled today – that is by way of a vote of SunRice shareholders that includes 75% approval from A Class shareholders. If this majority is not secured, this change cannot proceed.

Benefits and Advantages

- For SunRice, the Capital Restructure provides the opportunity to equip the company for the future, enabling us to:
 - o Invest for growth;
 - o Better manage business risk; and
 - o Have greater resilience and balance-sheet strength to withstand future downturns in crop and economic conditions.
- The advantages of the model for A Class shareholders include the improved ability to raise capital and support future growth initiatives; the preservation of existing grower shareholder control; and the potential to enhance SunRice's ability to grow the business to optimise paddy returns. This includes building a business that can better target new markets for Australian rice and optimise the paddy price per tonne for Riverina growers, in good times and bad.
- For B Class shareholders, the Capital Restructure offers the potential to unlock greater value for their Shares, providing freedom to invest in SunRice's future and their own.
- Advantages for B Class shareholders include the improved ability to raise capital and support future growth initiatives; expected enhanced liquidity for B Class shareholders; a potential significant increase in security price for B Class shareholders over time; and the resolution of existing estate planning issues.
- Based on SunRice records, approximately 68 per cent of our B Class Shares are held by A Class shareholders, meaning many shareholders will benefit from a strong SunRice on both counts.

Disadvantages

- The disadvantages of the model for A Class shareholders are that it may be more expensive for growers who do not hold B Class Shares to meet the minimum Securityholding requirement; and the potential for further dilution of alignment in A and B Class shareholder interests.
- The disadvantages for B Class shareholders include the potential for greater volatility in the market price of B Securities compared to B Class Shares; and B Securityholders would hold an indirect, rather than a direct, interest in SunRice through the Fund.

A Class Share Redemption in Exceptional Circumstances

- The Board can defer the redemption of an A Class Share if it believes the holder will resume being an Active Grower in the future, as we did during the Millennium drought.
- The Board also periodically assesses the A Class shareholder base to ensure it remains representative of our industry.
- We will continue to look at a range of mechanisms to ensure the A Class register remains strong in the future and reflects those farmers who are committed to the rice industry in the longer term. This includes:
 - o Supporting rice growers and local production.
 - o Considering other options such as extending the period of time over which A Class shareholders can supply the minimum quantity of rice. The next review of the criteria is likely to occur in 2016/17 and any proposal would come back to A Class shareholders for consideration and approval.

Valuation Perspectives and Future Capital Raisings

- Detailed information on valuation perspectives can be found on the SunRice CSR website or NSX. This material supports the Board's views that:
 - o SunRice's B Class Shares trade at a significant valuation discount on the NSX to comparable peers on the ASX; and
 - o If implemented, the Capital Restructure is anticipated to provide the potential for a significant uplift in Security price, over time.
- While no initial capital raising is planned as part of the Capital Restructure, future capital raisings would involve issuing new SunRice B Securities in the SunRice Fund. This would most likely occur through:
 - o An entitlement offer to existing Securityholders;
 - o A placement, combined with an issue to existing Securityholders under a Security Purchase Plan; or
 - o A combination of an entitlement and a placement.
- The Board's desire is to have all shareholders invest in SunRice when the opportunity arises and we will be providing every opportunity to encourage existing shareholders to participate in future capital raisings.
- Where external capital is required beyond the level that can be provided by existing Securityholders, we expect external investors to be attracted by SunRice's established operations and distribution networks, diversified portfolio and strong track record of business and shareholder performance.

Alternatives and Next Steps

- The Capital Structure Review has included a rigorous review of a range of models and mechanisms. Significantly:
 - o The status quo and NSX options limit our access to capital for growth; and
 - o The other options considered did not preserve grower control on an enduring basis.
- As a result, significant time, resources and investment have gone into developing a unique model that can facilitate growth to benefit both classes of shareholders, without jeopardising our business structure or the grower control our company has been built on.
- We encourage shareholders to continue to ask questions and provide feedback to inform the final stages of the Capital Structure Review:
 - o Contact one of your Directors.
 - o Visit the SunRice website (www.sunrice.com.au/corporate/investors) to access all the presentation materials, video content and provide feedback or ask questions.
 - o Phone the shareholder hotline: 1800 020 806 or +61 3 9415 4260 (for international callers).

