



17 February 2017

Dear Shareholder / Grower

## **SUMMARY OF 'SHED' MEETINGS WITH SHAREHOLDERS AND GROWERS**

In the week commencing 30 January, SunRice CEO, Rob Gordon, and I conducted a round of 'shed' meetings that were attended by approximately 270 people across the Riverina.

The Board would like to extend its thanks to those who hosted the meetings and to the attendees for their active participation. The issues are important for the future of SunRice and shareholder and grower input is vital for the Board.

### ***Market and company performance***

Rob Gordon provided an overview of the broader market and company performance following on from the release of the half year results in December 2016. It was noted that the global oversupply of medium grain rice, caused by record international production and stockpile levels, has resulted in medium grain rice price indicators almost halving over the last year and being likely to remain under pressure.

In addition, economic conditions in the Pacific and Middle East markets are weak; the low 2016 Riverina crop has impeded the overhead recovery by the Rice Pool (with profits from Global Trading allocated to fund the gap); CopRice profitability is affected by the depressed dairy industry; and Riviana remains subject to strong competition. The update included the PNG economic and political landscape including the PNG Government's commitment to pursuing the National Rice Policy. On the positive side, key Saudi Arabian and Australian Retail markets are performing well and we confirmed the 2016 paddy price of \$415 per tonne (Reiziq).

We are looking forward to a larger Riverina crop of around 800,000 tonnes and, despite the pressure on world rice prices and subject to budget finalisation and continuation of the current market conditions, we are of the view that the 2017 crop paddy price will exceed \$300 per tonne (Reiziq).

### ***Proposed Capital Restructure***

It was discussed that the Board is committed to positioning SunRice to the best advantage over the next ten years and is of the view that the Capital Restructure will enable it to achieve that objective. However, the Board does not consider it is prudent to proceed, with the uncertainty regarding the potential implementation of restrictive import quotas by the PNG Government, and with the ongoing issues related to one of SunRice's subsidiary joint venture partners. It was highlighted that the PNG restrictions could impact up to one third of SunRice's revenues. Attention was also drawn to the strong support provided by the Australian Government to SunRice in opposing the potential restrictions.

Discussion took place on the current issues involving Murray Goulburn and the differences between Murray Goulburn's and the proposed SunRice model. It was highlighted that the SunRice model is based on protecting the existing interests of both grower and investor shareholders, in line with our current operating structure.

The majority of attendees appreciated the reasons for, and endorsed the Board's position on, the delay of the Restructure. However, support for the Restructure itself was mixed and ranged from composed endorsement to passionate opposition.

### **A Class Shares**

The minimum thresholds of 200 tonnes over two years to *qualify* for an A Class Share and 200 tonnes over two years to *maintain* the A Class Share (i.e. “two years to qualify, two years to lose”) was outlined, along with the fact that the Board is able to defer the redemption of A Class Shares when rice growing is challenging. The Board’s discretion is enshrined in the constitution and the A Class Share Policy. It was exercised during the Millennium drought and again for the 2016 crop.

However, the Board understands there is concern that the number of A Class Shareholders may decline during periods of prolonged low water availability, leaving the control of SunRice in the hands of a reduced number of A Class Shareholders.

A potential variation was discussed whereby the thresholds could be changed to “two years to qualify, three or four years to lose”. Attendees were open to considering this variation. However, at a small number of meetings reservations were expressed regarding the fact that intermittent growers, and those that had not grown for three or four years, would be able to hold an A Class Share.

We also discussed the possibility of replacing the existing “co-operative” model of one A Class Share per grower, regardless of tonnes delivered above a minimum threshold with a model that allocated A Class Shares based on rice production.

*On balance*, attendees indicated strong support for the existing “co-operative” model, with Board discretion, over a production-based model. At some meetings it was suggested that a production based model could be supported if the number of A Class Shares was capped.

However, some dissatisfaction was expressed with the co-operative model of one A Class Share per grower on other grounds. At one meeting, this was on the basis that not all individuals involved with the grower entity were able to hold their own separate A Class Share. Some meetings noted that, under the co-operative model, some growers choose to establish additional delivery entities (for example in their individual name and in the name of their company). This practice enables those growers to obtain an A Class Share for each delivery name and can be perceived as manipulation of the rules. At another meeting, it was proposed that a family’s growing history should be taken into account when allocating A Class Shares. At two meetings, it was suggested that A Class Shares could be allocated based on a per farm basis.

At a number of meetings, attendees raised the issue that new or younger growers can find it difficult to acquire the 3,000 B Class Shares within 3 years, in order to be able to retain their A Class Share.

In summary attendees provided important information and feedback that the Board will take into consideration in formulating any changes to the A Class Share.

### **Board Composition**

We discussed that SunRice has seven grower, two external and one executive Director/s and that replacing one grower with an external would provide additional knowledge and skills while maintaining the majority of grower Directors.

Attendees were supportive of the proposed change, subject to a majority of grower Directors.

At a number of meetings, attendees raised the lengthy tenure of grower and external Directors and the importance of renewal on the Board.

### **Share Plans**

Attendees supported the reintroduction of the Dividend Reinvestment Plan and Employee Share Plan and the introduction of Grower Share Plan.

***Paddy Pricing Policy***

Attendees have had good exposure to the Board's policies to determine the paddy price and profit/dividend over recent years and this helped to direct the discussion at the meetings.

At a number of meetings, attendees suggested that the Board should allocate profits to the Rice Pool business, to ensure a commercial paddy price that is attractive to growers.

At a number of meetings, attendees stressed that SunRice needs to provide an earlier and firmer paddy price, to assist with making a decision about what to grow.

***Other***

At a number of the meetings, attendees expressed their desire for SunRice to play a more significant role in influencing water reform.

***Conclusion***

Once again, I would like to thank attendees for their active participation on these important issues.

The Board will take the information and feedback in to consideration with its future decisions and in formulating new proposals and policies.

In the meantime, I wish our growers a successful harvest.

Yours sincerely,



Laurie Arthur  
**Chairman**