



SunRice Report

RGA Annual General Meeting

Laurie Arthur – Chairman

4 August 2017



Agenda

- FY17 Performance
- Refreshed SunRice Strategy
- FY18 & Global Market Outlook
- Capital Restructure Update
- Questions



FY17: Resilience in a Challenging Market

REVENUE	\$1.11 billion	▼ 12% decrease
NET PROFIT AFTER TAX	\$34.2 million	▼ 34% decrease
DIVIDEND PER B CLASS SHARE	33.0 cents	■ Steady <i>Represented payout ratio of 54%</i>
PADDY PRICE	\$415.00 Medium Grain (Reiziq)	▲ 3% increase



Domestic & Global Factors Impacted the Results

- Results driven by a combination of several external factors:
 - lower Riverina rice crop
 - lower medium grain rice prices
 - negative macroeconomic trends
 - weak trading for CopRice & Riviana
- In line with smaller C16 crop, Rice Pool revenue was down 41% and it experienced a loss of \$32.5 million:
 - growers were paid a guaranteed fixed priced of \$415 per tonne for medium grain to encourage rice production when water availability was low
- International Rice revenue was down 2% and NPBT declined 24%:
 - increased globally traded volumes were offset by challenging economic and trading conditions across key markets



Complementary & Subsidiary Business Performance

- **SunFoods:** 61% revenue uplift and returned to profitability (as predicted): has reconfigured operations and returned to supplying SunRice's global markets
- **Riviana:** NPBT declined by \$4.7 million. External factors impacting volumes included, mining sector contraction, foodservice consolidation, retail pricing pressure and private label growth. Currency movements impacted margins.
- **Trukai:** Revenue down 26% due to PNG macroeconomic weakness, driven by falling commodity prices, high unemployment, and lowering overall income levels across the country.
- **CopRice:** NPBT declined by \$6.95 million. Significantly reduced demand for supplementary feed across most segments of the market severely affected performance.

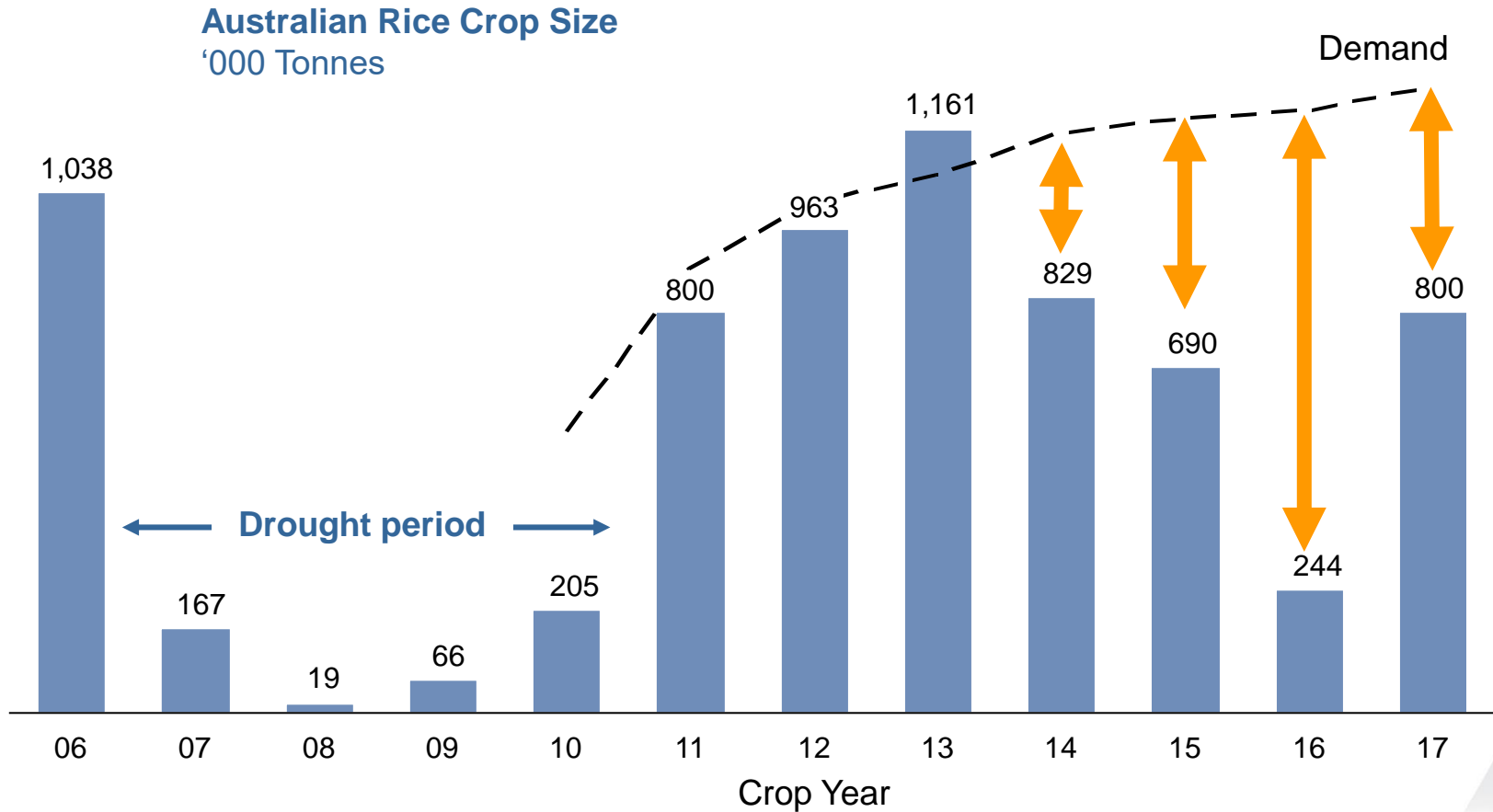


Global Rice Sourcing Intensified during FY17

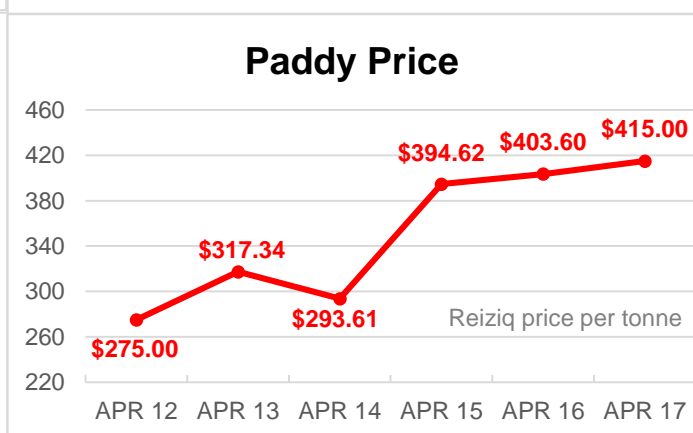
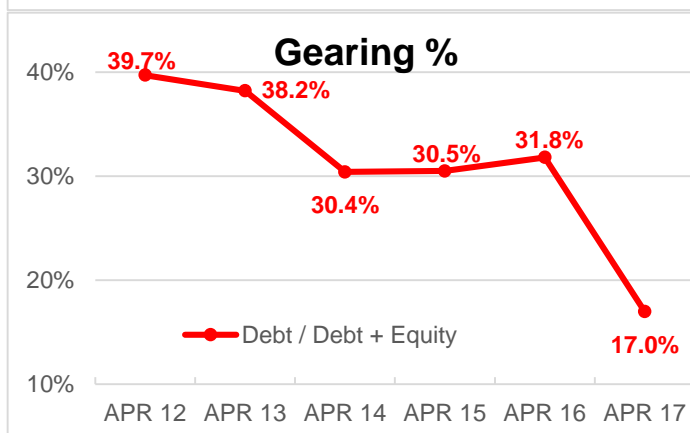
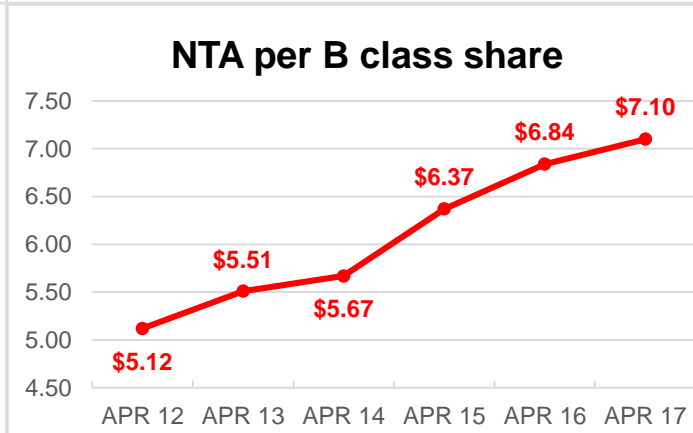
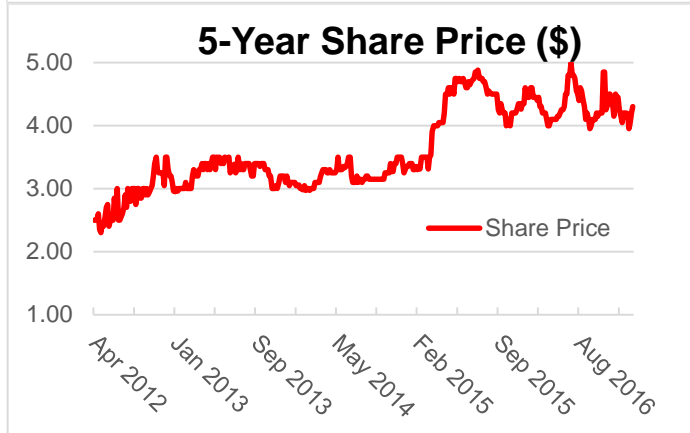
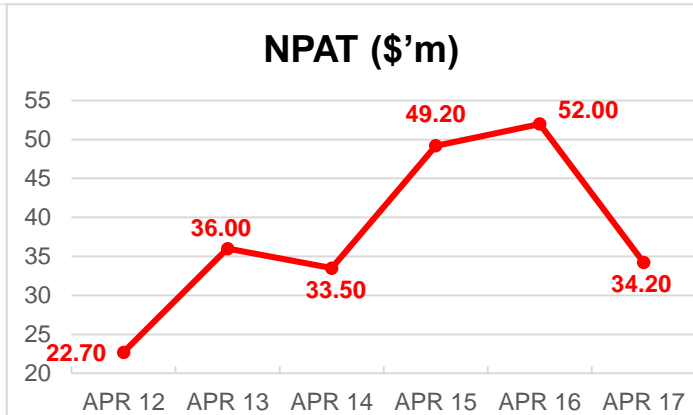
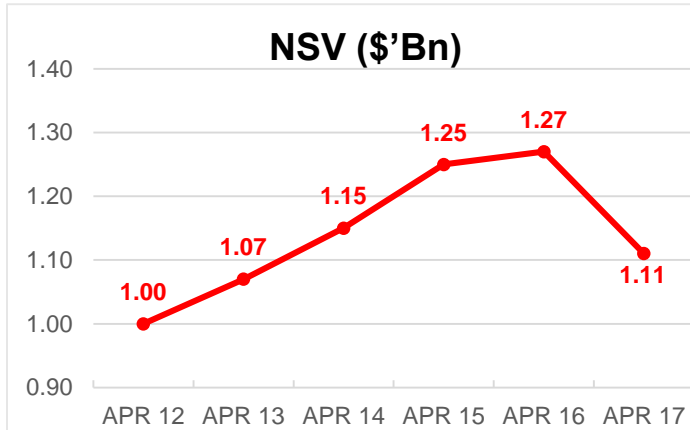
- Australian rice harvest in C16 declined to 244,000 tonnes: lowest since 2010.
- In FY17, secured a total of 500,000 paddy tonnes from international sources (300,000 tonnes in FY16)
 - successfully filled the supply shortfall caused by lower C16 Riverina crop, which represented less than 25% of total the demand for SunRice product.
- During FY17, accelerated establishment of a new supply chain in Vietnam, which supplied 320,000 paddy tonnes
- Also sourced around 115,000 paddy tonnes from the US and around 47,000 paddy tonnes from Taiwan
- Global sourcing of rice to complement Australian harvest and meet growing demand will remain an ongoing requirement



Australian Rice Production vs Demand



2012 Five-year Strategy: Improved Results & Resilience



Major Risk from Other Irrigated Crops

Horticulture (Almonds)

- 94% of almonds are grown in the connected MDB
- Almonds dominate the current horticultural expansion (growth slowing since 2006)
- Forecast maximum planting area of 40,000ha
- Nearly all new plantings are targeting general security allocation water market

Cotton

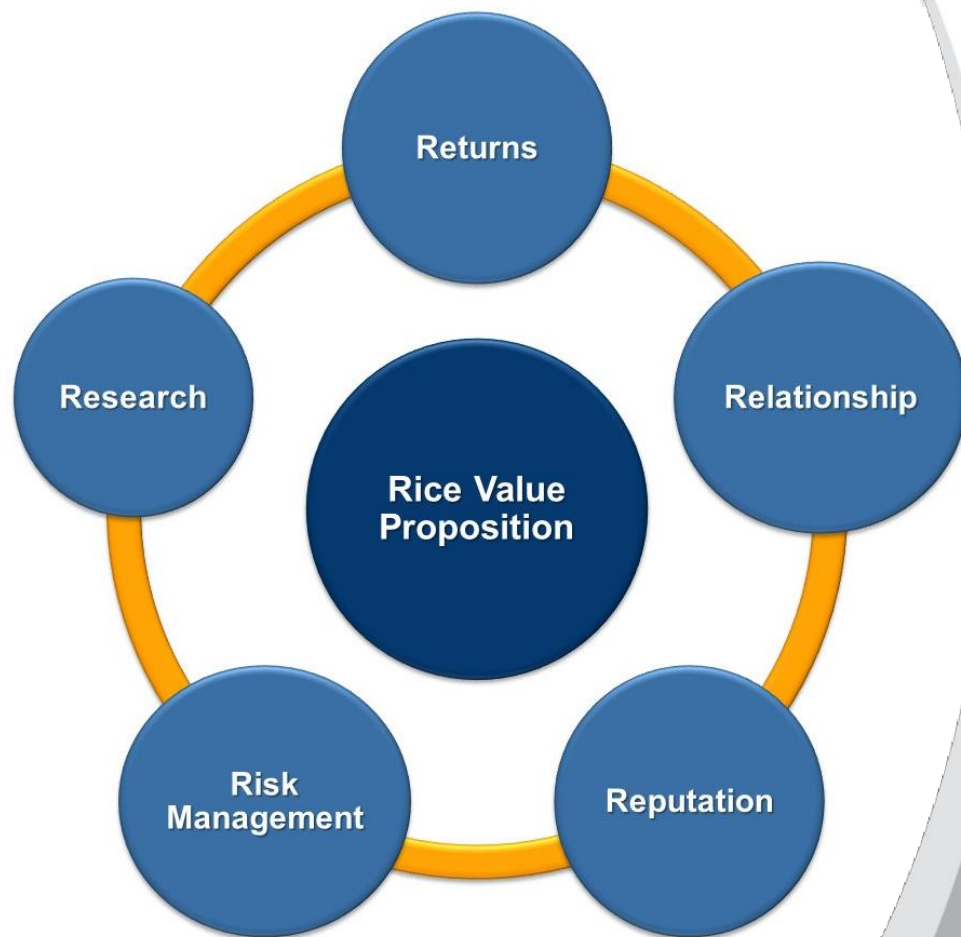
- 65,000ha in the Murray, Murrumbidgee and Darling is possible (42,500ha in the Murrumbidgee in 2017).
- Could represent increased water demand of ~190,000ML in average season
- Most of this water would come from summer crops
- Growth in cotton being driven by:
 - Cotton variety development (short-season suitable) / Transgenic Cotton
 - Marketing and pricing certainty (forward selling)
 - Current Pricing: recent consistent pricing of cotton lint above \$500/bale
 - Less water available: return and margin per ML key determinant of crop-choice
 - Flexibility in irrigation layouts and farming systems: no longer a challenge to change crop
 - Investment in local and modern infrastructure

Important to note that the Federal and State Governments have no capacity to regulate or control land use in the agriculture sector



SunRice's 5R Proposition to Promote Rice Growing

- **Returns:** maximise reliable returns for rice growers through:
 - Short season varieties to increase cropping frequency and improve whole farm returns
 - Superior Farming Systems to increase returns/MI from expanding options
 - Use field officers to assist rice growers move up the productive curve
- **Risks:** increase options for growers to manage risk through introducing new varieties, range of contract options and initiative such as GrowRice
- **Relationship:** build on existing understanding of our growers and ensure quality individual relationships to improve on-farm performance
- **Research:** proactively lead R&D as to what the rice farming system offers to the cotton grower, attract areas back to rice in the cotton rotation.
- **Reputation:** enhance image of the industry and quality of our message



Refreshed Strategic Focus



ENSURE THE RIVERINA GROWER CAN COMPETE AGAINST COTTON

- We will promote fewer but higher-earning varieties
 - Focus on Premium-market Medium Grain, Short Grains and Low GI
 - More streamlined supply chain eg. fewer sheds, optimised milling
 - Supportive agronomic packages
- Greater forward-pricing arrangements and a minimum guarantee for the pool
- SunRice's 5R Proposition



CREATE NEW HIGH VALUE OPPORTUNITIES

- Continue investing in innovation
 - With trends in Gluten Free and Health, there exist considerable opportunities in Value-Added products for both the ANZ and offshore
- Accelerate our Ingredients offering in rice and also in more sophisticated Rice By-products and Derivatives



FIND NEW PREMIUM MARKETS ACROSS THE GLOBE

- Sell Australian rice to markets that will pay a premium for clean and green rice: this will likely be in Asian markets
 - Australian Medium Grain to discerning Asian consumers
 - Australian Sushi in Asian Food Service
 - Australian Low GI to the significant diabetic and health-conscious populations in Asia



SOURCE LOWER-RETURNING MARKETS FROM OFFSHORE

- Allows a supply flex in times of low Australian crop
- Allows SunRice to remain competitive in markets that can no longer afford Australian rice and enter new developing markets
- Absorbs considerable overhead, therefore lifts paddy price for the Riverina grower
- Diversifies the SunRice portfolio

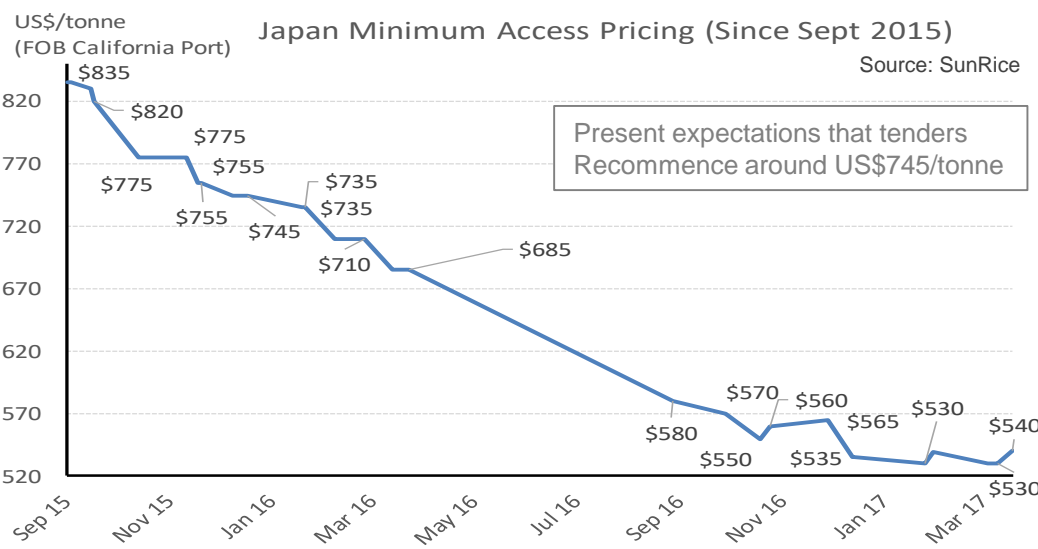
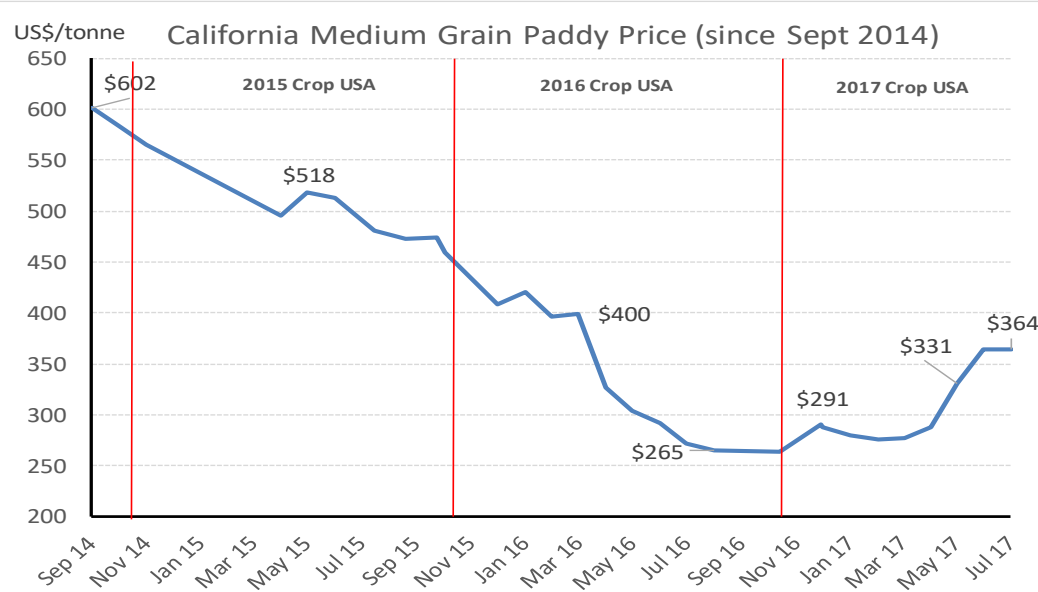


FY18 (C17) Outlook

- FY17 was characterised by a challenging trading environment, but signals indicate the global rice market is moving beyond the bottom of the cycle and more positive conditions are anticipated in FY18
- Dairy industry turnaround has commenced with improving farm gate prices, which is positive for CopRice
- PNG issues continue to be monitored:
 - government policy changes following election
 - macroeconomic outlook still weak
 - in-market competition easing
 - exchange rate stabilised
 - Kina liquidity recently tightened again
- FY18 profit guidance will be provided at the AGM (on 25 August)



World Market – Prices Recovering



- Gap between current California crop and lower than expected plantings, and late harvest next season is causing short supply that has bolstered recent pricing
 - Millers believed after drought there would be run of large crops and chased volume by dropping price in most markets in C16.
 - Lateness of September crop was not anticipated and now there is a short supply situation
 - Cash price in California market has increased from US\$6 to US\$10/o-l in a couple of months
- Japan tender pricing expectations presently US\$745/tonne (tenders recommence in October) from \$530/tonne in March



C17 Price Range and Payments Guidance

- Price range for C17 has been updated: Medium Grain (Reiziq) range: \$320-360/tonne (previously \$300-320/tonne)
 - Positive outlook for global markets
 - SunRice performance since the start of the 2018 financial year has been strong
 - Important to ensure growers can make well-informed and early decisions about their planting intentions
 - Especially in context of tightening water market and increasing water prices.
- Paddy pricing range for C17 has broadened from \$20/tonne to \$40/tonne, due to:
 - Some uncertainty regarding the direction of Medium Grain pricing – uncertainty that will remain in the market until tender volumes recommence in October
 - Reflects recent exchange rate movements: the AUD/USD exchange rate has strengthened considerably since May
- We are confident of achieving the lower-end of the paddy price range (\$320/tonne). However, several market factors need to work in SunRice's favour should the top-end of the current range (\$360/tonne) be realised.



Capital Restructure Update

- External factors impacting the Capital Restructure expected to continue
 - potential implementation of restrictive import quotas by PNG Government;
 - issues related to one of SunRice's subsidiary joint venture partners
 - developing negative sentiment towards particular capital structures for listed agriculture companies
- Board committed to ensuring access to capital from existing and new shareholders, at the right price, at the right value and at the right time to:
 - build a global business of scale
 - reduce business risk
 - maintain commercial resilience
- SunRice is appropriately capitalised at present: was not intending to raise equity capital as part of the Capital Restructure.
- If there is a requirement for funding in the short term, SunRice has headroom to increase debt



Summary

- Despite challenging market conditions during FY17, SunRice demonstrated commercial resilience and is in a strong position moving forward
- Signals indicate global rice market is moving beyond the bottom of the cycle and more positive conditions (and prices) are anticipated in FY18
 - C17 MG price range now \$320-360/tonne
- Securing global sources of rice will remain an important requirement
- Five-year strategy has been refreshed, with some key elements being:
 - Focus Riverina growers on higher returning varieties
 - Leverage health & wellbeing, convenience and 'sushi revolution' macro-trends
 - High value opportunities exist in snacking, by-products and derivatives



Questions

