SunRice AGM

10:30am, Friday 26 August 2011

Jerilderie Civic Hall

33 Jerilderie Street, Jerilderie

Chairman's Address:

Good morning and welcome to SunRice's 2011 Annual General Meeting.

In the past 12 months, SunRice and its shareholders have been faced with some of the toughest decisions in the company's sixty-one year history.

It's been a year of thoughtful consideration and at times, emotional anxiety, about our future. Responsibility has weighed heavily on our shoulders as we determine what is best for our company.

We have never lost sight of the fact that SunRice was built on the determination of our forefathers, and it's with this spirit in mind, that we embark on a fresh chapter.

Just as our industry stood together to form its own company, it is now united in a common desire to ensure that business goes forward, from strength to strength.

As SunRice Directors, we are determined to improve the company's financial position. As we have done all along, the Board is taking steps

to minimise the company's debt and maximise returns to growers – but there will be some short-term pain which is already being felt.

Global forces beyond our control have put pressure on SunRice, particularly as the industry emerges from a decade of drought. We have managed to navigate our way through this difficult climate so far, and we will continue to do so going forward.

PAUSE

The 2010/11 financial year brought mixed results.

It was wonderful to see full water allocations return to our rice growing areas, resulting in an 800,000 tonne crop being harvested – our largest in five years.

SunRice's consolidated revenue was $809 million – a reduction of just 1% on the previous year.

The company posted a $13.1 million dollar profit after tax, which was an 11.5% increase on the 2010 announcement.

It's important to note that the strong performance of our subsidiaries and rice foods businesses underpinned this good result. In comparison, our rice milling division was not profitable due to the drought and is being subsidised by our other activities.

A medium grain paddy price for the 2010 crop of $550 per tonne was paid for the Premium Pool and $320 per tonne for the Number 2 Pool.

We continued moving towards our goal to reduce the company's debt and improve gearing. Over the past three months we have increased the capital in our business by $6.4 million.

We delivered a fully franked dividend of 18 cents per B Class Share, which was 4.5 cents per share lower than the dividend paid in 2010. This has allowed us to retain $2.8 million from profit generated in 2010/11.

The reduction in the dividend was the first stage of our renewed capital raising campaign.

We also issued a prospectus last month, which offered additional B Class Shares to shareholders and RMB Equity Holders.

Participation in the Dividend Reinvestment Program was similar to last year, and secured $2.67 million of additional capital for the company.

$892,000 worth of new B Class shares were subscribed for under the Prospectus. This included $642,000 from redirected 2011 RMB Equity rollover payment, from a possible $11.7 million. This number is small, but is not unexpected.

Our efforts to reduce the company's gearing to 70% will continue over the coming years.

Before I move on, I want to clarify a couple of points that have been raised in the press recently. The first relates to ongoing claims that SunRice's debt is out control. Let me be clear – it is not.

Our industry has always had high debt. That is why we embarked on a capital raising program five years ago, long before the global financial crisis hit. That's one reason why we changed from a co-op to a company.

At that time our gearing was at 346%. At year end it was down to 102%, and it has decreased further with our recent capital raising efforts.

While we still have some way to go, it is this Board – and this Board alone – that decided to deal with the long term debt of the business. The company's debt is not a new issue and there has always been a firm focus on its management.

The second point is that of your Directors' remuneration. Most of you were here last year, when you voted to increase Directors' fees.

I don't intend to bore you with the detail of the presentation that preceded your vote, but to make one point – for eight years there had been no increase in these fees. In fact, there had been only one fee increase in 15 years.

PAUSE

Now, back to other matters.

With a normal sized crop now in our paddy storage depots, we have turned our attention to the future.

Rebuilding our market share to pre-drought levels is a major focus for our people, and presents challenges in most markets where cheaper rice is available. During our lean years, Vietnam and Thailand managed to make inroads in our traditional medium grain markets with less expensive long grain product.

However, we are making good progress. We have made significant sales to Japan and our important Pacific markets are returning to medium grain. A vigorous marketing campaign in the Middle East is also having a positive result.

Of course, there are other external pressures which affect our business.

The Australian and Californian markets are currently the only sources of medium grain rice in the world, and the size of the forthcoming Californian crop is above average. Prices are steady at the moment but they're expected to fall when the Californian crop is harvested.

However, where we sit against our competitors in the future relies just as much on what happens here at home - and that includes spiralling electricity costs and the pending carbon tax.

We are a manufacturing and marketing business. We are efficient energy users but even so, the current and future predicted rises in electricity charges are of great concern to our company.

Add to this the Federal Government's plans to implement a carbon tax, and the increase in our operating costs will be substantial.

For a low margin, export-oriented food business like ours, a carbon tax has the potential to significantly affect our competitiveness. Nowhere else in the world are our competitors subject to such an impost, making it a very uneven playing field for our company.

Of course there are other constraints. The high and volatile Australian dollar has already put pressure on our business and if the dollar remains strong, it will pose considerable challenges for us globally.

It will be staggering for many of you to know that every one cent increase in the AUD can reduce paddy prices by $3.13 per tonne for an 800,000 tonne crop.

CEO Gary Helou will speak more about this shortly.

Again, let me stress that we are a manufacturing and marketing business. We compete in the world market, exporting up to 80% of our crop.

Rising energy costs, the carbon tax and other restrictive practices just make it more difficult for us to do this in a way that is impactful and in line with our focus on grower and shareholder returns.

Which brings me to prices for the recently harvested 2010/11 crop.

All of the factors I've mentioned make it difficult to forecast the final price and provide an outlook for the next season.

Previous indications of pricing continue to come under pressure. As you know, the $258 minimum price commitment made by Ebro was not guaranteed by SunRice. Many factors have changed, and we've just been through some of them - electricity, the Australian dollar and changing supply regimes around the world.

In regard to the 2011/12 crop I would urge all growers to be cautious when doing their budgets prior to sowing and suggest they use figures that are below this season's price.

The Board will make every effort to deliver the best possible return to growers, but as you all know, these are difficult times and we have difficult decisions to make.

We're mindful of course that the 2012 crop shouldn't be limited by water availability.

SunRice has set a planning base for processing and marketing at an average of 800,000 tonnes of rice per annum.

We realise this figure can - and will - vary from year to year. However it's important from an economic perspective that, wherever possible, there aren't extreme fluctuations in crop sizes. As you are all aware - both very low and very high crops can severely impact on the company and returns to growers and shareholders.

In light of my earlier comments, growers may like to consider holding some of their water over for the 2012/13 crop.

Consistency of supply is an important component in our return to world markets.

We would also encourage growers to be mindful of our markets at planting time, and the increasing demand for the Reiziq variety. Quite simply, we need you to grow more of it.

As a result, SunRice will retire the Amaroo and Jarrah varieties, and place a price premium on Reiziq. It will be the standard medium grain variety and will be priced at fifteen dollars a tonne more than Sherpa and Quest.

We hope this leads to at least 600,000 tonnes of Reiziq being produced in the Murrumbidgee and Murray Valleys.

With this in mind, our research is also placing high priority on combining the cold tolerance of Sherpa with the bolder grain dimensions of Reiziq.

PAUSE

It wouldn't be possible to present a report of the last financial year without touching on the most dominant issue – the Ebro offer.

It took seven months to provide growers and shareholders with all the information needed to make an informed decision. It was a comprehensive but necessary process, and one which refocused shareholders on the role they must play in building a strong company.

The Ebro exercise taught us a lot – and the industry and business will be stronger as a result of this. Some people have learnt more about their business and this is a great thing. Others have learnt different aspects and the overriding view is one of appreciation of SunRice.

I thank all of you for your patience and participation during that debate, and now that the decision is behind us, we can focus entirely on what the future holds.

On the operational front, we have seen a major step forward for the industry with the reopening of the Deniliquin Mill, which has provided jobs and economic benefits for the local community.

We're also thrilled to have reopened the Coleambally Mill, if only for a short period, to help process our rice.

More than 350 jobs have been created in total across our regional operations – which is an outstanding achievement.

I am also pleased to report that we are reviewing and fine-tuning our internal processes relating to the issue and redemption of A Class Shares.

The Board will continue to undertake annual reviews to determine if there are Active Growers who could be invited to apply for an A Class Share.

We will conduct the annual review at the close of the pool each year.

The Board will also continue the practice of undertaking annual reviews to determine if there are A Class shareholders who are not Active Growers and this review will also be conducted at the close of the pool.

Now turning to other Board matters, and I'm very pleased to announce the results of the 2011 Director Election Ballot.

As you know, Mark Robertson, Laurie Arthur and Alan Walsh were all re-elected for a further four year term as Grower Member Directors. Together these men have served SunRice and the rice industry for decades and their experience and insight cannot be understated.

They are joined by a new Director – Willbriggie grower Glen Andreazza. Glen is also known to many of you – he has been the Chairman of Mirrool Branch of the RGA for the past three years and a delegate to the RGA Central Executive for eight years.

He brings with him passion and energy, and a clear focus on ensuring our company and our industry remain profitable and sustainable over the long term.

Please join me in welcoming Glen and the returning Directors.

LEAD APPLAUSE

I want to commend all of the outstanding candidates who offered themselves for election.

Thank you also to all A Class Shareholders of SunRice who participated in this year's Director Elections.

We have always had a strong and cohesive Board that works incredibly hard to do what's best for our company, our shareholders and the regional communities that rely on us.

The Director Election result was a clear and unquestionable vote of confidence in your Board.

We will continue this path – of that you can be assured.

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I would like to extend the Board's appreciation to Norm McAllister, who has been a Director for 14 years and announced his retirement prior to the election.

He made a phenomenal contribution to our rice research committee, then our research arm RRAPL, which he ably chaired and led for many years.
He led some rapid development stages where water use, for example, dropped by 60% in a 10 year period.

Norm also served as a Member of the Grower Services Committee, a Director of Riviana Foods and is a previous Member and Chairman of SunRice's Finance and Audit Committee.

He has brought a wealth of experience to the role of Director, remaining committed to the company during periods of adversity and prosperity.

We thank Norm for his loyalty and wish him all the best in his future endeavours.

As you are aware, we are farewelling another valued member of SunRice today - a man with whom I've worked closely over the past decade.

CEO Gary Helou has made an enormous contribution to SunRice during the past 11 years, and his talent and insight has brought the company much success, as well as steered it through the toughest of drought years.

Gary's focus on diversification of supply sources, brands, innovation and his achievements in growing the business, are second to none.

He was unswerving. He was unstoppable. He motivated people and reinvented himself and our business many times over.

In his 11 years at the helm, Gary took our growers on a journey. He taught them that rice was a food for humans and he took that same message to the world.

Gary's vision for SunRice was such that our shareholders – young and old – are united in their desire to remain a part of it.

We thank Gary for sharing his passion and talent with us for so many years. We're sure the dairy industry will benefit greatly from his experience.

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In closing, I would like to extend a sincere thank you to my fellow Board members and in particular my Deputy Chairman, Mark Robertson, for their exceptional commitment to their roles.

Thanks to our Corporate Management Team and our employees for their efforts and continual loyalty this year.

Thanks go to Les Gordon, President, and Ruth Wade, Executive Director of the Ricegrowers' Association of Australia Inc., for their leadership and remarkable efforts on behalf of the rice industry.

Of course, thank you to our growers and shareholders who continue to support our business.

And finally, a special thanks to my wife Sue and family.

PAUSE

Growing an 800,000 tonne crop this year has ignited excitement across our industry, from staff and customers, to growers and shareholders.

We're proud to boast that Australian rice is back, and that we're in a position once again, to feed millions of people, the world over.

SunRice is an outstanding company and you, our growers and shareholders, are an integral part of this.

Thank you for your continued support.