



Company announcement

GrainCorp Limited ABN 60 057 186 035

Date: 24 November, 2011

To: The Manager
Announcements
Company announcements office

PUBLIC ANNOUNCEMENT

GRAINCORP 2011 RESULTS

Open Briefing Q&A with CEO and CFO

A handwritten signature in black ink, appearing to read "Betty Ivanoff", is displayed within a light gray rectangular box.

Betty Ivanoff
General Counsel and Company Secretary



ASX Announcement: 24 November 2011

MD & CFO on Outlook

Open Briefing interview with MD and CEO Alison Watkins and
CFO Alistair Bell



In this Open Briefing®, Alison and Alistair discuss:

- Higher throughput volume, effective handling of large and disrupted 2011 harvest, benefit of large 2012 carry-in including outlook for Grain
- Strategy in Marketing after strong 2011 performance
- Grain processing update including outlook for Malt

Record of interview:

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GrainCorp Limited today reported net profit of \$171.6 million for the year ended September 2011, up from \$80.2 million for the previous year. EBITDA was \$349.6 million, up 65 percent and slightly ahead of guidance, reflecting increased earnings in the Grain businesses from a record eastern Australian crop, partly offset by lower grain processing earnings in Malt. Consensus EBITDA for FY2012 implies earnings contraction of approximately 5 percent. To what extent was 2011 a year of “super profit?” What is the earnings ability of GrainCorp in a “normal” harvest year and how do current conditions compare with normal?

MD & CEO Alison Watkins

Certainly FY2011 was not a normal year. In terms of volumes, it was well above the long term average with the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) predicting eastern Australia production of more than 24 million tonnes of wheat, barley, canola and sorghum, of which we received close to 15 million tonnes into our upcountry system. It was also a very challenging year logistically because of the disruption and damage to the harvest caused by extreme weather events in the first half. This added to our costs but our ability to effectively receive and handle record grain throughput under extremely trying circumstances highlights our customer focus.

In addition to the high level of receivables we saw strong exports at 8.1 million tonnes. Our Marketing team also did very well in both volume and profit-per-tonne terms, reflecting its ability to take advantage of and anticipate some of the implications of the large harvest and adverse weather events. We believe our strong FY2011 financial result demonstrates our

ability to handle the large and challenging harvest and our success in capturing opportunities presented in the year.

Looking to 2012, ABARES is currently forecasting above average production of 19.2 million tonnes of wheat, barley, canola and sorghum. The other dynamic that will influence our results in 2012 is our carry-in, which at 6 million tonnes is about double our long term average. This will mean our strong export programme can continue through October, November and December, when it would “normally” slow down.

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Together, the Grain businesses increased their EBITDA by \$165.5 million to \$282.9 million on the back of an increase in grain throughput of 10.2 million tonnes (mmt) to 24.1 mmt. Grain carry-out as at the end of FY2011 (or carry-in for FY2011) was 6.0 mmt, up from 2.6 mmt a year earlier. What implications does this have for grain throughput and earnings in FY2012?

MD & CEO Alison Watkins

It should have a positive impact on both: we have double the average carry-in volume in the system at the start of the year earning storage revenues, and it allows us to respond to firm export demand. Our FY2012 export program is well underway, with 1 million tonnes elevated year to date and bookings of a further 7.8 million tonnes of grain on the shipping stem. These port elevation bookings will have the effect of pulling grain through our network and generating earnings in FY2012 along the supply chain.

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Country & Logistics booked EBITDA of \$73.8 million in 2011, up 40 percent from the previous year, on revenue of \$522.6 million, up 53 percent. Receivals in the business totalled 14.9 mmt, up from 7.4 mmt, and GrainCorp's country receivals market share increased to over 60 percent from under 50 percent. What have been the drivers of the market share increase and are they sustainable in normal market conditions?

MD & CEO Alison Watkins

As a general rule we expect a higher share of receivals when there's a large crop, a good quality crop, where global prices are strong or any combination of the above. Large crops and strong prices tend to mean strong export demand and our system is set up around the export of grain out of eastern Australia. This means we tend to have a higher share in grain for export than, for example, in the domestic stock feed market where grain might find its way directly from the farm to the end consumer.

Of course there are other factors that influence share such as the service levels we offer at our receival and storage sites, and the strength of the marketplaces that operate at our locations. We're trying to provide customers with as many marketing options as possible, including multiple buyers and sellers and multiple ways to sell. We're pleased with our 2011 market share result, particularly with the inclusion of the additional 10 percent market share with grain receivals from other grain storages direct into our port terminals after harvest.

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Ports EBITDA was \$137.2 million, up from \$51.4 million in the previous year, reflecting an increase in grain export volumes to 8.1 mmt from 3.5 mmt. What scope is there to maintain port capacity utilisation in more normal harvest conditions?

MD & CEO Alison Watkins

It's pleasing to see how well this business can do when conditions are favourable and how important these strategic assets are to our business. We've had years when there have been negligible grain exports and the business earns very little money.

It's been our strategy to improve port utilisation and our priority is developing more non-grain and containerised grain exports through our ports. In 2011 we handled 1.5 million tonnes of non-grain exports, including woodchips, meal, magnetite and other commodities. We also exported around 400,000 tonnes of containerised grain and imported more than 300,000 tonnes of non-grain commodities, particularly fertiliser. These export and import activities provide a level of utilisation in above and below average crop years.

It's the nature of bulk grain port assets that there will be variability in utilisation year to year and region to region. However there's strategic value in our network of seven bulk ports across the east coast of Australia, in addition to providing a transparent, cost effective and reliable service to all our exporting customers.

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The Marketing business booked EBITDA of \$71.9 million for 2011, up from \$31.9 million on the back of increased grain sales and stronger earnings per tonne. Profit before tax was \$46.9 million, up from \$19.8 million. How do these results reconcile with the net gain of \$102.6 million on derivative and commodity trading during the year as detailed in Note 6 of the financial statements?

CFO Alistair Bell

The majority of the \$103 million relates to our Marketing business, with a small element relating to Malt. It's worth noting that the \$103 million net gain was made up of a realised gain of \$118 million and an unrealised loss of \$15 million.

It's also important to note that Marketing is focused on buying and selling grain by linking our supply chain capabilities to connect growers and end-consumers of grain. We're about marketing grain and we manage our risk by hedging our grain positions with physical or derivative grain contracts.

In 2011, 65 percent of our 5.5 million tonnes of marketed grain was acquired from growers and over 90 percent was sold to end-consumers.

The unrealised loss of \$15 million reflects the mark to market valuation of our commodity inventory and hedging positions. For our Marketing business, we held commodity inventory at 30 September 2011 valued at \$322 million. Accounting standards require our open positions to be valued as and when contracted rather than executed. The unrealised loss, combined with our realised gain, overheads and interest costs all contributed to the Marketing profit before tax of \$47 million.

The mark to market valuation of our hedging positions applies to commodity contracts, derivatives, inventory and logistics. It reflects positions for unsold but hedged grain, and sold but not yet delivered grain. The total fair value of our year end physical inventory and derivatives totalled \$361 million, of which \$322 million was attributed to Marketing

inventory. Against the total \$361 million fair value position, the net effect of a 10 percent movement in commodity prices would have resulted in a movement of approximately \$2 million plus or minus in our after tax profit, reflecting our conservative approach to risk management.

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What are the key earnings opportunities for Marketing in lower volume harvest conditions?

MD & CEO Alison Watkins

We're very focused on building up our position with domestic customers. We already have a strong position in grain for human consumption, including flour milling and industrial starch, but we've been weaker in the animal feed segments. Some consolidation has played out in the animal feed sector in recent years, for example in poultry and feed lots, where there are now some very large and sophisticated buyers who value the ability to source across a number of different regions and to plan ahead. So we're making sure we have a strong proposition for those customers and Marketing is at the forefront of our offer for them.

We're also trying to develop our offshore Marketing presence to better service our international customers. To this end, we've set up an office in Hamburg and we're having a close look at Canada. This gives us better insight into the international grain market and allows us to provide continuity to our customers by sourcing selectively from other origins: when there's a lower volume harvest in Australia, we'll have the capability in other markets to maintain continuity of delivery to our customers.

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The Malt business, which you acquired in November 2009, reported EBITDA of \$99.3 million for 2011, down 16 percent compared with the 10-and-a-half months to September 2010, on revenue of \$867.8 million, up 9 percent. In the second half Malt EBITDA was \$42.3 million, down 30 percent year on year. How indicative is the second half performance of the nearer term outlook?

MD & CEO Alison Watkins

We think the second half is an indication of what we can expect in FY2012, perhaps with some further softening. The malt industry is cyclical and we've included some information in our results presentation that shows how margins move over the cycle. We believe we're heading towards a low point in the cycle.

In Malt our focus is making sure we have the strongest competitive position in terms of operating cost structure and access to barley. This, and the integrated proposition we're developing for customers, will enable us to service customers through a coordinated and global footprint.

We believe our FY2011 group result shows the value our portfolio of separate but integrated grain businesses provides, given our ability to offset the cyclical low in Malt with strong earnings in our Australian Grain businesses.

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Excluding Port of Vancouver compensation receipts, Malt EBITDA margin per tonne fell to \$85 from \$115, which you've attributed to cyclical margin pressure and adverse foreign

exchange. Why do you believe the margin pressure is cyclical when there is some evidence of structural change such as a long-term decline in beer consumption in mature markets?

MD & CEO Alison Watkins

Margin pressure emerges from a supply and demand imbalance. There may be a structural change emerging in beer consumption in mature markets, but margin pressure is still generally cyclical. When supply and demand aren't in balance, higher cost malt houses tend to exit the industry. In Germany, where we just purchased four malt houses well positioned to access barley and customers, we're starting to see the shut-down or mothballing of smaller, higher cost malt houses that do not have competitive access to barley.

In this environment, our focus is making sure our position is better than our competitors' and that we're well positioned to participate in growth markets. For example, we're very focused on the growing craft segment in the US, which is similar to the premium segment in Australia in that it uses a lot of malt per hectolitre of beer. We're also focused on single malt whisky in Scotland, another growing and profitable segment. Geographically we're looking at growth markets in Asia and Africa where beer consumption is increasing.

We're confident that we're well positioned for a turn in the margin cycle.

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Following recent increases in your malt production capacity, via acquisition and capacity expansion, to 1.4 mmt per annum, what is the outlook for capacity utilisation in the current environment?

MD & CEO Alison Watkins

While it's dipped slightly, our capacity utilisation remains high, at above 90 percent. We're comfortable with this given our utilisation is well above the global industry average in the low 80 percent range. Last year we closed our less efficient Toowoomba malt house and opened a new facility at Pinkenba in Queensland. We're seeing industry consolidation in Germany, and in Europe more broadly we've seen around 600,000 tonnes of capacity change hands or be rationalised in the last 12 months.

Generally speaking, our portfolio is well placed competitively but there are certain malt houses where we're working to manage our operating costs to ensure we're one of the most cost-competitive producers.

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Your 60 percent owned flour milling business Allied Mills contributed \$8.2 million to the 2011 result, down 10 percent. In the second half, the contribution was \$6.6 million, up 33 percent. To what extent did this represent a rebound from the impact of the floods in the first half of the year? Is the momentum of the second half sustainable?

MD & CEO Alison Watkins

The full year result reflects what we might expect from the business going forward. Operations were disrupted in the first half with some of the impact reversing in the second half but we were still able to meet our customer requirements, albeit from other locations in Australia.

The Toowoomba facility was closed in the year due to flood damage, but the facility and additional operating costs are insured and we intend as soon as possible to make a final decision regarding the replacement of this capacity.

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GrainCorp booked net operating cash flow of \$304.8 million for 2011, up from \$109.3 million. The year on year increase included a \$252.3 million turnaround in funding flows for commodity inventory. Why is commodity inventory funding considered to be an operating item and what was the reason for the turnaround? Aside from this, were there one-off factors at work? What is the normal relationship between volume throughput and the operating cash flow outcome?

CFO Alistair Bell

Over the year our commodity inventory increased by about \$140 million to \$322 million, all of which was funded by short term debt. Our debt strategy is to match funding with asset life: inventory typically turns over in one year so it's funded by short term facilities that have been set up and are used specifically for buying and selling grain. With that, changes in inventory and associated funding levels are accounted for in operating cash flow rather than through cash reserves.

Normally a large crop with a large carry-out means higher than normal inventory which results in an increase in inventory funding in the cash flow.

It's worth noting that in 2010 there was an element of inventory funded out of cash, whereas in 2011 our entire commodity inventory was funded by short term debt.

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GrainCorp had net debt of \$330.6 million at 30 September 2011, up from \$239.2 million a year earlier. Excluding marketing grain inventory, core debt fell to \$8.6 million from \$51.3 million a year earlier. Core debt gearing was 1 percent, down from 4 percent. To what extent are you looking to use your balance sheet capacity for further acquisitive growth? With consolidation of the agribusiness sector well progressed in Australia, to what extent are your acquisition opportunities offshore?

CFO Alistair Bell

The level of gearing at year end and the timing of some of our cash flows reflect the seasonal nature of our business.

We expect about \$220 million of cash outflows in the first half of FY2012, including outflows of about \$80 million associated with finalising the acquisition of Schill Malz (GermanMalt), a tax payment of about \$70 million and the payment of full year dividends of about \$70 million.

In the last 12 months we've made two bolt-on acquisitions: Kirin Australia in Perth and Schill Malz in Germany. One of our strategic themes is to grow as an international agribusiness organically and through acquisitions. We'd look to use our balance sheet capacity should the right opportunity present itself, although we don't have any acquisitions on the table at the moment. We'll make any acquisition decisions based on attractive returns to shareholders, rather than around whether the business is based in Australia or offshore.

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GrainCorp has announced a fully franked final dividend of 15 cents per share, up from 10 cents last year, as well as a special dividend of 20 cents. This brings the full year payment to 30 cents plus special dividends of 25 cents, up from the previous year's 25 cents plus special dividends of 5 cents. In light of an expected fall in earnings, what is the outlook for dividends in the current year?

MD & CEO Alison Watkins

There are a number of positive indicators for FY2012 but it's too early to say what they mean for the dividend. We're targeting to pay a dividend each year and want to use special dividends as a way of "flexing up" the dividend and rewarding our shareholders when we have a better than normal year.

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Thank you Alison and Alistair.

For more information about GrainCorp, visit www.graincorp.com.au or call Reid Doyle, Investor Relations Manager, on +61 2 9266 9217.

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