



Company announcement

GrainCorp Limited ABN 60 057 186 035

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To: The Manager
Announcements
Company announcements office

PUBLIC ANNOUNCEMENT

CHAIRMAN'S ADDRESS TO GRAINCORP LIMITED'S ANNUAL GENERAL MEETING FOR THE 2011 FINANCIAL YEAR

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

Betty Ivanoff
General Counsel and Company Secretary

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GrainCorp 2012 AGM Chairman's Address

I'm pleased to report to you today on a year of positive progress for GrainCorp.

As Alison will detail shortly, the company is in good shape, highlighted by increased earnings, improved return on equity and a net profit after tax of \$172 million. These factors have allowed the Board to increase shareholder dividends significantly, to 55 cents per share for the period. GrainCorp's strong result has been achieved under challenging circumstances, including global market volatility and one of the most complex harvests on record.

Our performance is an early demonstration of the benefits of the strategy we set in February last year, to manage earnings variability through the cycle, to enable the business to grow and to improve the return to our shareholders.

Our Malt business is an example of that strategy in operation. It diversifies our earnings profile and reduces variability as it is subject to a different agribusiness cycle. It provides an important international presence and asset footprint, which gives us insight into international grain markets. This creates the opportunity to pursue marketing opportunities – such as in Canada as it moves to a deregulated marketplace – and positions our company to capture value from increasing global malt and grain flows as the demand for food increases.

GrainCorp's strong performance also highlights the quality of our people and the flexibility, innovation and strong capability across our business.

More specifically, I want to recognise the efforts of our people in response to the flooding in northern NSW and Queensland, both last year and again in the last few weeks.

While many regional GrainCorp employees have been personally affected by the floods, they acted quickly to secure our facilities and the grain stocks in them. As a result, we expect little damage. We are working closely with our customers to reduce the disruption of supply caused by some rail lines being cut.

Meanwhile, our people have again supported their local communities, helping with general labour, providing equipment for sandbagging and levy construction – through to carpet removal and possession recovery in the worst hit areas.

On behalf of the Board and shareholders I'd like to commend and thank those GrainCorp employees involved for their efforts.

The opportunity

In 2012 GrainCorp – and the Australian agricultural sector – stand at the threshold of an unprecedented opportunity. There are a number of global factors that are at play here.

Consider the impact of these forces:

Over the next 40 years, the world's population will grow by up to 40% - or about 2.5 billion people. The engine room for this population growth will be the world's developing countries, which are becoming richer as their economies develop. As more wealth is accumulated, the diet in these countries will improve, increasing the demand for protein – and as a result, for grain.

The good news is that Australian grain growers offer quality products that are already in high demand in these developing countries.

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Australia is ideally located for “the Asian century”, and our geographic proximity means we can be more responsive and flexible to increased demand from this region, which is an important consideration in these days of “just-in-time” delivery.

Compared with many of our competitors, we also have a freight advantage to the key growth regions of Asia, the Middle East and Africa.

In many ways the “blue sky” view of the opportunities for our sector and our business has never been better.

The challenges

However there are a number of counter forces which threaten the opportunities we should be capturing.

Growers face a competitive market where every dollar counts. As a volume business, GrainCorp's growth and success is tightly linked to the profitability of our farmers.

Some of our farmers are finding the going tough at the moment with profit margins at slim levels. Last year, some yields were disappointing, wheat was downgraded by rain during harvest and prices were ordinary. In addition, the high Australian dollar has a significant effect on grain prices and returns.

Our farmers face exactly the same cost pressures as other manufacturers, who have recently commanded extensive media coverage. If the farmers aren't making money, they will have no incentive to increase production. In recent months they have been subjected to additional costs that will reduce their ability to compete.

While GrainCorp recognises the need to respond to climate change; in its current form, Australia's carbon tax places our farmers at a disadvantage against all our competitors. Even though Australian farmers are themselves exempt, the costs that accumulate through inputs, or downstream domestic processing, or along the supply chain, will inevitably be passed back to them. Meanwhile, their competitors will be selling their grain in overseas markets free from this burden.

In addition, it is crucial that Australia has the right regulatory framework and economic policies in place, to allow us to fully capture the benefits of the growth in demand for protein from developing markets.

Australia is just one player in a competitive global market. Given our size and the substantial subsidisation provided by other governments to their agricultural sectors, we will always be price takers, which means we must work doubly hard to maintain any advantage.

Unfortunately, there remains extensive regulation that weighs down Australian agriculture. Australian businesses like GrainCorp – and the farmers we rely on – need to be competing in global markets on a level playing field.

There remains too much regulation around access arrangements in the area of ports for wheat export. This regulation is peculiar to our sector – there is no similar restraint on coal or iron ore ports. It is a needless legacy of the former single desk environment and adds considerable compliance costs to the export of our product. It also restricts flexibility and the fact that grain owners can and do access many alternative supply chains.

GrainCorp needs to and wants to provide access to our ports to all exporters. We have 15 million tonnes of capacity at our ports. In a good year, we export about half this much. Given all this surplus capacity; we have a commercial interest to provide access to other exporters, to ensure our infrastructure is being used efficiently.

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We have been pleased to see the positive moves by the government on this issue and in the coming months we will work closely with the industry towards an appropriate voluntary code of conduct for ports. We believe that a light-touch regime, if implemented, would benefit all participants in Australia's grain chain, by allowing us to compete more effectively as the demand for grain intensifies. Access to ports would still be covered by all the usual protections of Australian competition law and customers would benefit from a more responsive and flexible supply chain.

At last year's AGM I spoke about the need for further investment from all levels of government in infrastructure – particularly rail which is the crucial link in the supply chain.

It has been pleasing over the last year to see some progress in this area. In particular, I'd like to recognise the commitment from the Victorian government to invest in rail and keep the Rainbow line open.

However, the area does remain an urgent priority for Federal and State governments. Many parts of the rail network have been neglected and allowed to deteriorate.

For example, in Queensland, congestion on the line between Toowoomba and Brisbane is holding back the efficiency of this busy and strategically important corridor; in NSW, many branch lines are constrained by having to operate with weight restrictions. In Victoria, there is a lack of crossing loops that would allow more efficient movement of rolling stock.

Conclusion

To conclude, I'd like to publicly acknowledge the significant efforts of Alison Watkins, her management team and the thousands of employees at all levels of GrainCorp in delivering the outstanding result of the past year in such challenging circumstances. Our people are the company's most important asset and, from the Board's perspective, their ability, effort and focus on the strategy saw us pass the stress test of the past year with flying colours.

The business is well positioned to capitalise on its strong position, and we look forward confidently to the years ahead.