

COMPANY ANNOUNCEMENT



GrainCorp Limited (ASX: GNC)

24 June 2013

The Manager
Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

GrainCorp Limited – takeover bid by ADM Australia Holdings II Pty Limited

Target's Statement

In accordance with item 14 of section 633(1) of the Corporations Act 2001 (Cth), please find attached a copy of the Target's Statement of GrainCorp Limited (GrainCorp) in relation to the off-market takeover bid by ADM Australia Holdings II Pty Limited for all of the ordinary shares in GrainCorp not already held by it.

Yours faithfully

A handwritten signature in black ink, appearing to read "A Horne", is positioned above the printed name of the Company Secretary.

Andrew Horne

Company Secretary

GRAINCORP LIMITED

GrainCorp Limited

Level 26, 175 Liverpool Street
Sydney NSW 2000
PO Box A268
Sydney South NSW 1235

T 02 9325 9100

F 02 9325 9180

graincorp.com.au

Target's Statement

This Target's Statement has been issued in response to the off-market takeover bid made by ADM Australia Holdings II Pty Limited (ABN 31 158 556 686), a wholly owned subsidiary of Archer Daniels Midland Company, for all of your shares in GrainCorp Limited.



ACCEPT

The GrainCorp Directors unanimously recommend that you **ACCEPT** the Offer, in the absence of a Superior Proposal.

Any GrainCorp Director may withdraw or change his or her recommendation in the circumstances described in the Chairman's Letter included in this Target's Statement.

Shareholders can call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday if they require assistance.

Financial Advisers



Greenhill

Legal Adviser



This is an important document and requires your immediate attention. If you are in any doubt about what to do, you should contact your legal, financial or other professional adviser as soon as possible. If you have recently sold all of your Shares, please disregard this document.

IMPORTANT NOTICES

Nature of this document

This is the Target's Statement dated 24 June 2013 given by GrainCorp Limited (ABN 60 057 186 035) under Part 6.5 Division 3 of the Corporations Act in response to the off-market takeover bid made by ADM Australia Holdings II Pty Limited (ABN 31 158 556 686) for all of the Shares not already held by it.

A copy of this Target's Statement was lodged with ASIC and given to ASX on 24 June 2013. Neither ASIC, ASX nor any of their respective officers take any responsibility for the contents of this Target's Statement.

Defined terms

Capitalised terms used in this Target's Statement are defined in Section 7. The rules of interpretation that apply to this Target's Statement are also set out in Section 7.

Investment decisions

This Target's Statement does not take into account your individual investment objectives, financial situation or particular needs. It does not contain personal advice. The GrainCorp Directors encourage you to seek your own independent legal, financial and taxation advice before deciding whether or not to accept the Offer.

Forward-looking statements

This Target's Statement may contain forward-looking statements, including statements of current intention or expectation. As such forward-looking statements relate to future matters, they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed, projected or implied by such forward-looking statements. GrainCorp and its directors, officers and advisers give no representation, assurance or guarantee to Shareholders or any other person that any forward-looking statements will actually occur or be achieved.

Disclaimer as to information

The information on ADM and ADM Australia contained in this Target's Statement has been prepared by GrainCorp using publicly available information (including information contained in the Bidder's Statement) and has not been independently verified by GrainCorp. Accordingly, subject to the Corporations Act, GrainCorp does not make any representation or warranty (express or implied) as to the accuracy or completeness of such information.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert is responsible for that report. Neither GrainCorp nor any of its officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of GrainCorp, in relation to information which it has provided to the Independent Expert.

Diagrams

Diagrams appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in charts, graphs and tables is based on information available at the date of this Target's Statement.

Rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Target's Statement are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Target's Statement.

Foreign jurisdictions

The distribution of this Target's Statement may, in some jurisdictions outside Australia, be restricted by law or regulation. Accordingly, persons outside Australia who come into possession of this Target's Statement should inform themselves of, and observe, those restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with laws and regulations outside Australia.

Privacy

GrainCorp has collected your information from the register of Shareholders for the purpose of providing you with this Target's Statement. The type of information GrainCorp has collected about you includes your name, contact details and information on details of your shareholding in GrainCorp. Your information may be disclosed on a confidential basis to GrainCorp's related bodies corporate and external service providers (such as the share registry of GrainCorp and print and mail providers) and may be required to be disclosed to regulators such as ASIC and ASX.

Internet

GrainCorp maintains an internet site. The GrainCorp internet site is www.graincorp.com.au. Information contained in, or otherwise accessible through, this internet site does not form part of this Target's Statement. All references in this Target's Statement to the GrainCorp internet site are inactive textual references and are for your information only.

GrainCorp Shareholder Information Line

If you have any queries regarding the Offer or this Target's Statement, please contact the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday.

IMPORTANT DATES

Date of this Target's Statement	24 June 2013
Date of the Offer	1 July 2013
Close of the Offer (unless extended or withdrawn)	7.00pm (Sydney time) on 31 August 2013



CONTENTS

Chairman's letter	2
1 Overview of the Offer	4
2 Recommendation and matters to consider in deciding whether or not to accept the Offer	7
3 Frequently asked questions	12
4 Overview of GrainCorp	19
5 Taxation considerations	27
6 Additional information	31
7 Glossary and interpretation	38
8 Approval of this Target's Statement	42
Attachment A – Independent Expert's Report	44
Corporate directory	IBC

24 June 2013

Dear Shareholder

On 2 May 2013, ADM announced its intention to make an off-market takeover offer, acting through its wholly owned subsidiary ADM Australia, to acquire all of the shares in GrainCorp not already held by ADM Australia.

Should the Offer become unconditional, Shareholders who accept the Offer and hold Shares at the relevant times will receive Cash Payments of \$13.20 per Share, comprising:

- the ADM Payment of \$12.20 per Share; and
- Permitted Dividends totalling \$1.00 per Share.¹ The Permitted Dividends are expected to be fully franked, providing additional value of up to \$0.43 per Share for those Shareholders who can capture the full benefit from franking on the dividends.

Shareholders may also become entitled to receive an Earnings Dividend, being a dividend equal to 3.5 cents per Share for each full month between 30 September 2013 and the Earnings Dividend End Date (expected to be the date that the Regulatory Conditions have been satisfied or waived). The Earnings Dividend is expected to be fully franked and provides compensation to Shareholders in the event there are delays in satisfying the Regulatory Conditions of the Offer. Payment of the Earnings Dividend is subject to GrainCorp being profitable over the period during which the Earnings Dividend accrues and the Offer becoming unconditional.

The GrainCorp Directors have carefully considered the Offer and unanimously recommend that you accept the Offer, in the absence of a Superior Proposal. Any GrainCorp Director may withdraw or change his or her recommendation if any of the Regulatory Conditions have not been satisfied or waived by 31 December 2013, the Independent Expert concludes in any written update to the Independent Expert's Report that the Offer is either not fair or not reasonable or that director ceases to be of the view that the Offer is in the best interests of Shareholders.

In making their recommendation, the GrainCorp Directors have carefully considered the following matters:

- the Cash Payments of \$13.20 per Share represent a significant premium to GrainCorp's trading prices prior to the announcement of ADM's initial takeover proposal, including:
 - a 49% premium to the closing price of \$8.85 per Share on 18 October 2012, being the last trading day prior to the announcement of ADM's initial takeover proposal;
 - a 48% premium to the 1-month volume weighted average price of \$8.90 per Share to 18 October 2012; and
 - a 44% premium to the 3-month volume weighted average price of \$9.14 per Share to 18 October 2012;
- the Independent Expert, Grant Samuel, has concluded that the Offer is fair and reasonable, in the absence of a superior proposal;
- the GrainCorp Directors believe that the price of Shares on the ASX is likely to fall if the Offer is not successful and no Superior Proposal emerges, at least in the near term;
- no Superior Proposal has been received by the GrainCorp Board as at the date of this Target's Statement;
- Shareholders are being offered the certainty of cash for their Shares; and
- Shareholders who can capture the full benefit from franking on the Permitted Dividends will receive additional value of up to \$0.43 per Share.

1. On 16 May 2013, the GrainCorp Board declared a fully franked interim dividend for FY13 of \$0.25 per Share (including a special dividend of \$0.05 per Share), with a record date of 5 July 2013 and a payment date of 19 July 2013. The interim dividend forms part of the \$1.00 of Permitted Dividends, leaving \$0.75 per Share available for distribution.

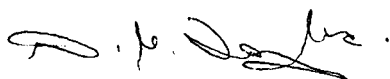
If the Offer is successfully completed, the total cash payments Shareholders will receive from the time of ADM's initial takeover proposal are \$13.55 per Share (including the dividend of \$0.35 per Share paid in December 2012 but excluding the Earnings Dividend (if any)) – representing a 15% increase on ADM's initial takeover proposal – plus additional value of up to \$0.58 per Share for those Shareholders who can capture the full benefit from franking on GrainCorp dividends included in these cash payments.

The GrainCorp Directors strongly recommend that you read this Target's Statement (including the Independent Expert's Report contained in Attachment A) in its entirety and in conjunction with the Bidder's Statement you have received from ADM Australia. The Bidder's Statement includes full details of the terms of the Offer, information about ADM and ADM Australia and a description of ADM's intentions in relation to GrainCorp. You should consider whether or not to accept the Offer having regard to your own investment objectives, financial situation and tax position and, if you are in any doubt about what to do, you should consult your independent legal, financial or other professional adviser. For further details of the recommendation of the GrainCorp Directors and matters to consider in deciding whether or not to accept the Offer, please refer to Section 2.

The Offer is scheduled to close at 7.00pm (Sydney time) on 31 August 2013, unless extended or withdrawn. If you wish to accept the Offer you should follow the instructions in the Bidder's Statement and on the Acceptance Form. Shareholders who accept the Offer will not be able to trade their Shares and may only withdraw their acceptance in the circumstances described in Section 3.24.

GrainCorp will keep Shareholders informed of any material developments in relation to the Offer through releases to ASX (which will also be published on GrainCorp's website at www.graincorp.com.au). A list of frequently asked questions is set out in Section 3. After reading this document, if you have any questions about the Offer, please call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday.

Yours sincerely,



Don C Taylor
Chairman

1. OVERVIEW OF THE OFFER



The Offer	ADM Australia is offering to acquire all of your Shares. You may only accept the Offer in respect of all of the Shares registered in your name at the date your Acceptance Form is processed. For full details of the terms of the Offer, please refer to section 12 of the Bidder's Statement. For information regarding ADM and ADM Australia, please refer to Section 3.7 and section 5 of the Bidder's Statement. For a description of ADM's intentions in relation to GrainCorp, please refer to section 9 of the Bidder's Statement.
Cash Payments²	If you accept the Offer and the Offer becomes unconditional, you will receive Cash Payments totalling \$13.20 per Share, comprising: • \$12.20 from ADM Australia under the Offer (being the ADM Payment); and • \$1.00 from GrainCorp by way of Permitted Dividends. It is expected that all such dividends will be fully franked. On 16 May 2013, the GrainCorp Board declared a fully franked interim dividend for FY13 of \$0.25 per Share (including a special dividend of \$0.05 per Share), with a record date of 5 July 2013 and a payment date of 19 July 2013. The interim dividend forms part of the \$1.00 of Permitted Dividends, leaving \$0.75 available for distribution. Shareholders may also become entitled to receive an Earnings Dividend, being a dividend of an aggregate amount equal to 3.5 cents per Share for each full month for the period between 30 September 2013 and the Earnings Dividend End Date (expected to be the date that the Regulatory Conditions have been satisfied or waived). Any such dividend is expected to be fully franked. Payment of the Earnings Dividend is subject to GrainCorp being profitable over the period during which the Earnings Dividend accrues and the Offer becoming unconditional. For further information regarding the ADM Payment, the Permitted Dividends and the Earnings Dividend, please refer to Sections 3.12 to 3.17.
Offer Period	Unless the Offer is extended or withdrawn, it is open for acceptance until 7.00pm (Sydney time) on 31 August 2013. The circumstances in which ADM Australia may extend the Offer Period or withdraw the Offer are set out in Sections 3.3 and 3.4.
Recommendation	The GrainCorp Directors unanimously recommend that you accept the Offer, in the absence of a Superior Proposal. Any GrainCorp Director may withdraw or change his or her recommendation if the Regulatory Conditions have not been satisfied or waived by 31 December 2013, the Independent Expert concludes in any written update to the Independent Expert's Report that the Offer is either not fair or not reasonable or that director ceases to be of the view that the Offer is in the best interests of Shareholders. Those GrainCorp Directors who hold or control Shares intend to accept the Offer in respect of their personal shareholdings in GrainCorp, in the absence of a Superior Proposal. The reasons for the GrainCorp Directors' unanimous recommendation are set out in Section 2.2. Risks and other matters to consider when deciding whether to accept the Offer are set out in Section 2.3.
Independent Expert's Report	GrainCorp engaged Grant Samuel to opine on whether the Offer is fair and reasonable and to prepare a report for inclusion in this Target's Statement. That report can be found at Attachment A, and Shareholders are encouraged to read it carefully and in its entirety. The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. The reasons for this conclusion are set out in the Independent Expert's Report.
Conditions	The Conditions of the Offer, which are set out in full in section 12.8 of the Bidder's Statement, are summarised below: • <i>Regulatory Conditions:</i> – There are no objections from FIRB in respect of the acquisition of Shares under the Offer. – The ACCC does not oppose the acquisition of Shares under the Offer or seek to prevent or restrain such acquisition or attach conditions or undertakings to its approval of such acquisition. – Certain foreign regulatory authorities (including in Canada, China, the European Union, Japan, South Africa and South Korea) approve the acquisition of Shares under the Offer or the applicable waiting periods expire. • <i>Minimum Acceptance Condition:</i> ADM Australia obtains a relevant interest in at least 50.1% of the Shares, including the 19.85% of Shares in which ADM Australia currently has a relevant interest. • <i>No prescribed occurrences or material adverse change:</i> No 'prescribed occurrence' or 'material adverse change' happens in respect of the GrainCorp Group.

2. You will only be entitled to receive a Permitted Dividend or the Earnings Dividend (if any) if you hold Shares at the record date for that dividend.

Conditions

(continued)

- *Conduct of business:* GrainCorp does not breach the conduct of business provisions in the Bid Implementation Deed.
- *No regulatory actions:* Certain regulatory bodies do not take action to prevent or materially adversely impact the making of the Offer or completion of the Takeover Bid, or to require the divestiture of Shares or material assets of the GrainCorp Group.
- *Change of control:* No person is, becomes entitled to or states an intention to exercise, or exercises, a right under a material agreement or instrument of the GrainCorp Group (other than certain agreements or instruments previously disclosed to ADM) where the exercise of that right is reasonably likely to result in any of the following:
 - a material amount becoming repayable by the GrainCorp Group immediately or earlier than the scheduled repayment date;
 - action being taken under a material agreement or instrument which is material in the context of the GrainCorp Group (including the termination or modification of such an agreement or instrument); or
 - interests of the GrainCorp Group being terminated, modified or required to be transferred, redeemed or disposed of where this would be material in the context of the GrainCorp Group.
- *No distributions:* No member of the GrainCorp Group declares or pays a distribution, excluding any Permitted Dividend or Earnings Dividend and any distribution to a wholly owned member of the GrainCorp Group.
- *Share plans:* GrainCorp does not grant or issue certain employee incentives other than as permitted by the Bid Implementation Deed, and all such incentives currently in existence are converted into Shares or are cancelled or are the subject of cancellation agreements.

For information regarding the status of the Conditions, please refer to Section 3.20. For a description of what happens if any Condition is not satisfied or waived, please refer to Section 3.21.

Your choices as a Shareholder

Accept the Offer

You may choose to accept the Offer.

Details of how to accept the Offer are set out in section 12.3 of the Bidder's Statement and on the Acceptance Form.

If you accept the Offer:

- unless withdrawal rights are available (see Section 3.24) and you exercise those rights, you will be unable to sell your Shares on market or otherwise deal with your Shares, including by accepting any Superior Proposal (should any such proposal emerge); and
- your Shares will not be transferred to ADM Australia until after the Offer becomes unconditional. As the record dates for payment of the Permitted Dividends and the Earnings Dividend (to the extent paid) are expected to pass before the Offer becomes unconditional, Shareholders who accept the Offer (and do not withdraw that acceptance) will be entitled to receive all such dividends announced after the date of acceptance (and retain any such dividend paid to them before that date). See Sections 3.16 and 3.17 for details of the timing of payment of Permitted Dividends and any Earnings Dividend.

The reasons for the GrainCorp Directors' recommendation that you accept the Offer, in the absence of a Superior Proposal and otherwise on the basis described above (see 'Recommendation'), together with risks and other matters to consider in deciding whether to accept the Offer, are set out in Section 2.

Sell Shares on market

If you have not already accepted the Offer, you may sell some or all of your Shares on the ASX for the market price at the time. If you sell your Shares on market you may incur a brokerage charge and you will:

- lose the ability to accept the Offer or any Superior Proposal that may emerge; and
- not be entitled to receive Permitted Dividends or the Earnings Dividend (if any) (and any associated franking credits), if the record date for those dividends is after the date that you cease to be the registered holder of those Shares.

If you sell some of your Shares on market, you can accept the Offer for the balance of your Shares.

Reject the Offer by doing nothing

If you do not wish to accept the Offer or sell your GrainCorp shares on market, you can retain your stake in GrainCorp by doing nothing. For information regarding certain risks associated with rejecting the Offer by doing nothing, including the risk that your Shares will be compulsorily acquired, please refer to Section 2.3(d).

The GrainCorp Directors encourage you to consider your personal risk profile, investment objectives and tax and financial circumstances before making any decision in relation to your Shares.

2. RECOMMENDATION AND MATTERS TO CONSIDER IN DECIDING WHETHER OR NOT TO ACCEPT THE OFFER



2.1 RECOMMENDATION OF THE GRAINCORP DIRECTORS

The GrainCorp Board considers that the Offer will deliver greater benefits to Shareholders than any other alternative currently available.

The GrainCorp Directors unanimously recommend that you ACCEPT the Offer, in the absence of a Superior Proposal. Any GrainCorp Director may withdraw or change his or her recommendation if the Regulatory Conditions have not been satisfied or waived by 31 December 2013, the Independent Expert concludes in any written update to the Independent Expert's Report that the Offer is either not fair or not reasonable or that director ceases to be of the view that the Offer is in the best interests of Shareholders.

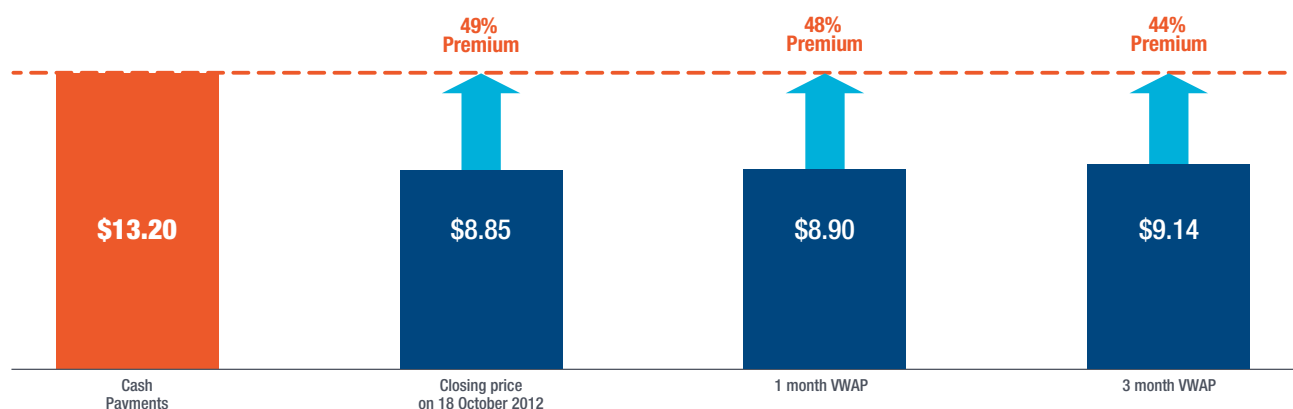
Reasons why the GrainCorp Directors make their recommendation are described in Section 2.2.

2.2 REASONS TO ACCEPT THE OFFER

a. Shareholders are being offered a significant premium to pre-announcement trading prices of GrainCorp Shares

- The Cash Payments of \$13.20 per Share represent a significant premium to the levels that Shares were trading at prior to the announcement of ADM's initial takeover proposal on 22 October 2012.

Comparison of Cash Payments to pre-announcement trading prices of GrainCorp Shares



Source: IRESS.

Note: VWAP represents the market volume weighted average price on ASX in the relevant period up to and including 18 October 2012 (being the last trading day prior to the announcement of ADM's initial takeover proposal).

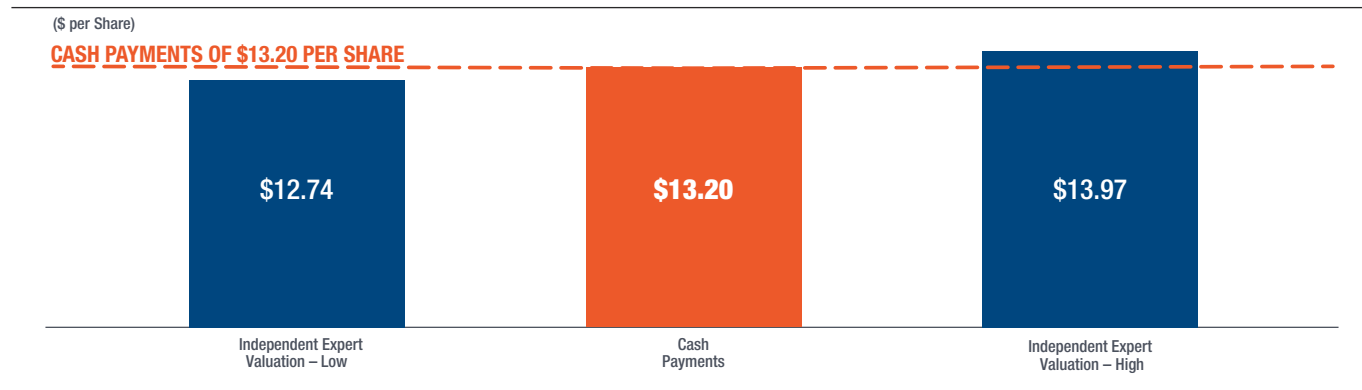
- Importantly, the Cash Payments of \$13.20 per Share compare favourably with ADM's initial proposal price of \$11.75 per Share. In addition, all Shareholders who were on the register on 3 December 2012 are entitled to retain the GrainCorp FY12 final dividend of \$0.35 per Share, meaning such Shareholders who accept the Offer will receive total cash payments of \$13.55 per Share from the time of ADM's initial takeover proposal, if the Offer becomes unconditional. This represents a 15% increase on ADM's initial takeover proposal.

b. The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal

- The GrainCorp Board engaged the Independent Expert, Grant Samuel, to prepare a report setting out whether, in its opinion, the Offer is fair and reasonable and to state the reasons for that opinion.
- The Independent Expert has concluded that "*the ADM Offer is fair and reasonable, in the absence of a superior proposal.*"

- The Independent Expert has estimated the full underlying value of GrainCorp, including a control premium, to be in the range of \$12.74 – \$13.97 per Share. The Cash Payments of \$13.20 per Share fall within the Independent Expert's valuation range as shown in the following chart:

Independent Expert's estimated valuation range for Shares

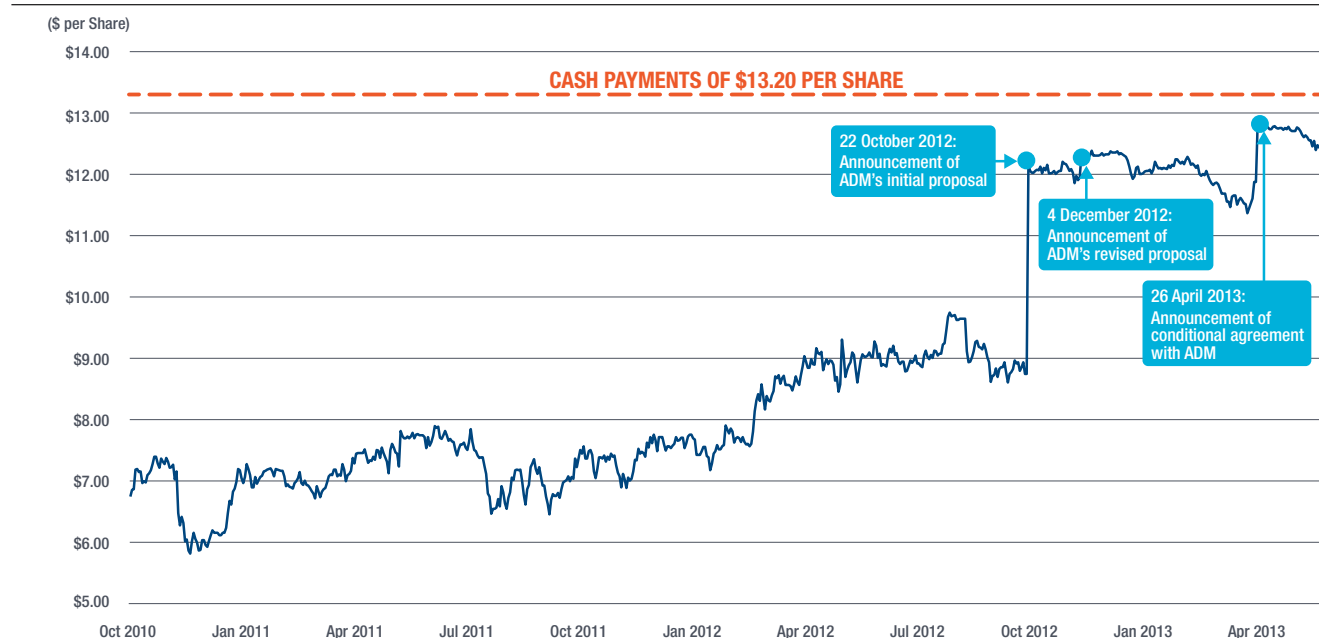


- A complete copy of the Independent Expert's Report is set out in Attachment A of this Target's Statement. The GrainCorp Directors encourage Shareholders to read the report in full.

c. GrainCorp's share price is likely to fall if the Offer is not successful and no Superior Proposal emerges, at least in the near term

- The GrainCorp share price traded significantly below the Cash Payments of \$13.20 per Share in the two years prior to the announcement of ADM's initial takeover proposal on 22 October 2012.
- The GrainCorp share price rose significantly following the announcement of ADM's initial takeover proposal, as shown in the following chart:

GrainCorp Share Price Performance



Source: IRESS.

Note: Market data as at 21 June 2013.

- The GrainCorp Directors believe that in the absence of the Offer and if no Superior Proposal emerges, the GrainCorp share price is likely to fall, at least in the near term.
- This is consistent with the Independent Expert's view:
"in the absence of any takeover offer (or speculation), it is likely that GrainCorp shares would trade at levels well below \$13.20"

d. No Superior Proposal has emerged as at the date of this Target's Statement

- Since the announcement of ADM's initial takeover proposal on 22 October 2012 and up to the date of this Target's Statement, no Superior Proposal has emerged.
- The Independent Expert has commented:
"While there is a possibility of a higher alternative offer, it is relatively unlikely; and it would be imprudent for shareholders to reject the ADM Offer in anticipation of a higher offer from ADM Australia or a third party."

e. You are being offered the certainty of cash for your Shares

- If you accept the Offer and the Offer becomes unconditional, you will obtain the certainty of receiving the Cash Payments of \$13.20 per Share.³
- The certainty of the Cash Payments should be compared to the risks and uncertainties of remaining a Shareholder, which include the risks set out in Sections 2.3(d) and 4.11.

f. Shareholders who can capture the full benefit from franking on the Permitted Dividends will receive additional value of up to \$0.43 per Share⁴

- Shareholders who can utilise the franking credits connected with the Permitted Dividends of \$1.00 per Share will receive additional value of up to \$0.43 per Share.
- The ability of Shareholders to utilise franking credits and the exact post tax value achieved by them will depend on their individual tax circumstances. Accordingly, Shareholders are encouraged to read the taxation considerations outlined in Section 5 and obtain independent taxation advice.

2.3 RISKS AND OTHER MATTERS TO CONSIDER IN DECIDING WHETHER OR NOT TO ACCEPT THE OFFER

a. You may wish to participate in any potential upside that may result from remaining a Shareholder

- If you accept the Offer and the Offer becomes unconditional, you will no longer be entitled to participate in GrainCorp's future financial performance. This will mean that you will not retain any exposure to GrainCorp's assets or have the potential to share in the value that could be generated by GrainCorp in the future through the successful implementation of its business strategy and you will not have the opportunity to receive future dividends from GrainCorp (other than Permitted Dividends and the Earnings Dividend (if any)). Please refer to Section 2.3(d) for details of certain risks associated with not accepting the Offer.

b. There may be tax consequences from accepting the Offer

- Disposal of your Shares under the Offer may have tax consequences for you.
- A summary of the taxation implications of disposing of your Shares under the Offer is set out in Section 5. That summary is based on the Australian taxation law and administrative practice as at the date of this Target's Statement. The application of tax laws to Shareholders will be dependent on particular facts and circumstances and accordingly it is strongly encouraged that Shareholders obtain independent taxation advice.

3. You will only be entitled to receive a Permitted Dividend or the Earnings Dividend (if any) if you hold Shares at the record date for that dividend.

4. This excludes the value of franking credits attaching to the Earnings Dividend (if any). This also excludes the value of any franking credits attaching to the GrainCorp FY12 final dividend of \$0.35 per Share paid in December 2012. For Shareholders who received that dividend and who are able to capture the full benefit from franking of that dividend, this represents additional value of up to \$0.15 per Share of franking credits (i.e. total additional value of up to \$0.58 per Share including the additional value of up to \$0.43 per Share associated with the Permitted Dividends).

c. There are risks associated with accepting the Offer

There are risks associated with accepting the Offer, including:

- You will only receive the ADM Payment if the Conditions are satisfied or waived, the timing of which is uncertain. If you accept the Offer and any Condition is not satisfied or waived, ADM Australia will not acquire your Shares under the Offer and you will not receive the ADM Payment for them.
- Shareholders who accept the Offer will only be able to withdraw their acceptance to accept a Superior Proposal (if any such proposal emerges) or trade their Shares if:
 - the FIRB Condition has not been fulfilled; or
 - ADM Australia varies the Offer in a way that postpones, for more than one month, the time when ADM Australia has to meet its obligations under the Offer and the Offer is still conditional.

However, you should note that, as at the date of this Target's Statement, GrainCorp has not received a Superior Proposal and no assurance can be given that any such proposal will be received.

d. There are risks in doing nothing and not accepting the Offer

- If during, or at the end of, the Offer Period, ADM Australia has relevant interests in at least 90% (by number) of the Shares and the Offer becomes unconditional, ADM Australia will be entitled to proceed to compulsory acquisition of all outstanding Shares. Shareholders who have their Shares compulsorily acquired will receive the ADM Payment later than those Shareholders who accept the Offer. For further information regarding compulsory acquisition, please refer to Section 6.9.
- If you do not accept the Offer by the end of the Offer Period and, at the end of that period, ADM Australia has relevant interests in more than 50% but less than 90% of the Shares and the Offer becomes unconditional, you will end up holding shares in a company with a single controlling shareholder. This will have a number of possible implications, including:
 - ADM Australia will be in a position to control the appointment of the directors and senior management of GrainCorp. This will enable ADM Australia to determine GrainCorp's dividend policy and control the strategic direction of the GrainCorp Group;
 - the available market for Shares is likely to be limited to Shares not held by ADM Australia, with the result that liquidity in Shares may be materially lower than at present. This may materially adversely affect the market price of Shares and the ability of Shareholders to sell their Shares;
 - ADM Australia has stated in section 9.4 of the Bidder's Statement that it intends to retain the listing of GrainCorp on the ASX, subject to satisfying the ongoing requirements under the Listing Rules (including there being a sufficient number and spread of Shareholders). If GrainCorp is removed from the official list of ASX, Shareholders will not be able to sell their Shares on the ASX;
 - as described in Section 6.8, if ADM Australia acquires control of GrainCorp, there may be consequences in respect of certain of GrainCorp's material contracts;
 - if ADM Australia acquires 75% or more of the Shares, it will be able to pass a special resolution of GrainCorp. This will enable ADM Australia to, among other things, change the GrainCorp constitution; and
 - if, after the end of the Offer Period, ADM Australia becomes the holder of at least 90% of the Shares (for example, by subsequent acquisitions of Shares), then ADM Australia may be entitled to compulsorily acquire outstanding Shares (see Section 6.9(b)).
- If ADM Australia acquires a relevant interest in less than 50% of the Shares on issue, waives the Minimum Acceptance Condition (which ADM Australia has stated in the Bidder's Statement that it has no present intention to do) and the Offer becomes unconditional, ADM Australia has stated in section 9.5 of the Bidder's Statement that it intends to, among other things, seek to obtain representation on the GrainCorp Board so that the proportion of ADM Australia's nominees is broadly in line with its voting power in GrainCorp. See section 9.5 of the Bidder's Statement for further details of ADM Australia's intentions in this circumstance.

Shareholders should take these possible implications into account in considering whether or not to accept the Offer. For further details about risks associated with holding Shares, please refer to Section 4.11.

3. FREQUENTLY ASKED QUESTIONS



3.1 WHAT IS THE OFFER?

The Offer is an off-market takeover bid made by ADM Australia, a wholly owned subsidiary of ADM, to acquire all Shares not already held by it on the terms set out in section 12 of the Bidder's Statement.

3.2 WHEN DOES THE OFFER CLOSE?

The Offer will close at 7.00pm (Sydney time) on 31 August 2013 unless it is extended or withdrawn.

The circumstances in which ADM Australia may extend the Offer Period are described in Section 3.3.

3.3 CAN THE OFFER PERIOD BE EXTENDED?

ADM Australia may extend the Offer Period at any time before giving the Notice of Status of Conditions (see Section 3.18) while the Offer is subject to Conditions.

If all the Conditions have been satisfied or waived (that is, the Offer is unconditional), ADM Australia may extend the Offer Period at any time before the end of the Offer Period, even if it has already given the Notice of Status of Conditions.

Further, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- ADM Australia increases the amount of the ADM Payment (or otherwise improves the consideration offered under the Offer); or
- ADM Australia's voting power in GrainCorp increases to more than 50%.

In either of these circumstances, the Offer Period is automatically extended so that it ends 14 days after the occurrence of the relevant event.

3.4 CAN THE OFFER BE WITHDRAWN?

ADM Australia may only withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

3.5 CAN THE OFFER BE VARIED?

ADM Australia may vary the Offer in any of the ways permitted by the Corporations Act, including by extending the Offer Period (see Section 3.3) or by increasing the amount of the ADM Payment. If ADM Australia varies the Offer in any of those ways, it must give written notice to ASIC and GrainCorp and send you a copy of that notice.⁵

3.6 WHY HAVE I RECEIVED THIS DOCUMENT?

You have received this Target's Statement because you are a Shareholder.

This Target's Statement is GrainCorp's formal response to the Offer and the Bidder's Statement which was sent to you shortly before this Target's Statement. The Bidder's Statement was prepared by ADM Australia and includes information about ADM and ADM Australia, together with details of ADM Australia's Offer to acquire your Shares.

The Bidder's Statement and this Target's Statement contain important information in relation to your decision whether or not to accept the Offer. You should read both documents carefully and in their entirety.

3.7 WHO ARE ADM AND ADM AUSTRALIA?

ADM Australia is a wholly owned subsidiary of ADM. It currently owns 19.85% of GrainCorp's issued shares.

ADM is a producer of food ingredients, animal feeds and feed ingredients, biofuels and other products, and has approximately 30,000 employees. ADM is listed on the New York Stock Exchange (**NYSE**) and the Frankfurt Stock Exchange and had a market capitalisation of approximately US\$21.5 billion as at close of trading on the NYSE on 20 June 2013 (NY time).

Further details about ADM Australia and ADM are set out in section 5 of the Bidder's Statement.

5. However, ADM Australia will not be required to send you a copy of the notice if, at the time of the variation, you have already accepted the Offer, the Offer is unconditional and the variation merely extends the Offer Period.

3.8 DO THE GRAINCORP DIRECTORS RECOMMEND THE OFFER?

Yes. The GrainCorp Directors unanimously recommend that you accept the Offer, in the absence of a Superior Proposal.

The reasons for the GrainCorp Directors' unanimous recommendation are set out in Section 2.2. For a description of the circumstances in which a GrainCorp Director may withdraw or change his or her recommendation of the Offer, please refer to Section 3.9.

3.9 CAN A GRAINCORP DIRECTOR WITHDRAW OR CHANGE HIS OR HER RECOMMENDATION OF THE OFFER?

Yes. Any GrainCorp Director may withdraw or change his or her recommendation of the Offer if a Superior Proposal emerges or in the event that:

- the Independent Expert concludes in any written update to the Independent Expert's Report that the Offer is either not fair or not reasonable;
- any of the Regulatory Conditions have not been satisfied or waived by 31 December 2013; or
- that director ceases to be of the view that the Offer is in the best interests of Shareholders.

The ability of the GrainCorp Directors to withdraw or change their recommendation if the Regulatory Conditions are not satisfied or waived by 31 December 2013 was included due to the possibility that it will take several months for the relevant regulatory approval processes to be completed. If the Regulatory Conditions have not been satisfied or waived by 31 December 2013, the GrainCorp Directors will consider whether to maintain their recommendation having regard to the circumstances at the time, including GrainCorp's performance and prevailing market conditions.

If the GrainCorp Directors withdraw or change their recommendation or there is a material development in relation to the Offer, GrainCorp will inform you of that matter.

3.10 WHAT DO THE GRAINCORP DIRECTORS INTEND TO DO WITH THEIR SHARES?

Those GrainCorp Directors who hold or control Shares intend to accept the Offer in respect of their personal shareholdings in GrainCorp, in the absence of a Superior Proposal.

3.11 IS THERE AN INDEPENDENT EXPERT'S REPORT?

Yes. GrainCorp engaged Grant Samuel to opine on whether the Offer is fair and reasonable and to prepare a report for inclusion in this Target's Statement. That report can be found at Attachment A, and Shareholders are encouraged to read it carefully and in its entirety.

The Independent Expert has concluded that the Offer is fair and reasonable, in the absence of a superior proposal. The reasons for this conclusion are set out in the Independent Expert's Report.

3.12 WHAT WILL I RECEIVE FOR MY SHARES?

If you accept the Offer and the Offer becomes unconditional, you will receive Cash Payments totalling \$13.20 per Share. This amount will be comprised of:

- the ADM Payment of \$12.20 per Share from ADM Australia; and
- Permitted Dividends of \$1.00 per Share from GrainCorp.⁶ It is expected that all such dividends will be fully franked. On 16 May 2013, the GrainCorp Board declared a fully franked interim dividend for FY13 of \$0.25 per Share (including a special dividend of \$0.05 per Share), with a record date of 5 July 2013 and a payment date of 19 July 2013. The interim dividend forms part of the \$1.00 of Permitted Dividends, leaving \$0.75 available for distribution.

Shareholders may also become entitled to receive an Earnings Dividend, being a dividend of an aggregate amount equal to 3.5 cents per Share for each full month for the period between 30 September 2013 and the Earnings Dividend End Date, and expected to be fully franked. Payment of the Earnings Dividend is subject to GrainCorp being profitable over the relevant period and the Offer becoming unconditional. See Section 3.17 for full details of the Earnings Dividend.

The Cash Payments do not include the value of any franking credits attaching to Permitted Dividends, which could provide additional value of up to \$0.43 per share for those Shareholders who are able to capture the full benefit from franking on the Permitted Dividends.⁷

6. You will only be entitled to receive a Permitted Dividend (or the Earnings Dividend (if any)) if you hold GrainCorp Shares at the record date for that dividend.

7. This excludes the value of franking credits attaching to the Earnings Dividend (if any).

3.13 WHEN WILL I BE SENT THE ADM PAYMENT IF I ACCEPT THE OFFER?

Subject to the terms of the Offer, ADM Australia will pay the ADM Payment to Shareholders who accept the Offer on or before the earlier of:

- one month after the Offer is accepted or, if the Offer is subject to a Condition when it is accepted, within one month after the Offer becomes unconditional; and
- 21 days after the end of the Offer Period.

Shareholders will not receive the ADM Payment if the Offer does not become unconditional.

3.14 WHAT ARE THE PERMITTED DIVIDENDS?

The Permitted Dividends are dividends which can be paid to Shareholders without any reduction in the amount of the ADM Payment. The GrainCorp Board is permitted to declare dividends totalling \$1.00 per Share, \$0.25 of which will be paid as an FY13 interim dividend on 19 July 2013 to Shareholders who own Shares on the record date of 5 July 2013. It is expected that all such dividends will be fully franked. The Permitted Dividends do not include the Earnings Dividend (if any) (see Section 3.17 for information about the Earnings Dividend).

3.15 WILL I BE ENTITLED TO RECEIVE THE PERMITTED DIVIDENDS?

You will be entitled to receive a Permitted Dividend if you are the registered holder of Shares at the record date for that dividend.⁸ The record date for a Permitted Dividend will be announced at the same time as the dividend is announced.

The table below outlines what a Shareholder will receive, based on when they become a Shareholder and, in the case of the ADM Payment, subject to the Shareholder accepting the Offer and the Offer becoming unconditional:

What will a Shareholder receive in respect of a Share?

Date GrainCorp Shareholder became registered holder of the Share	ADM Payment of \$12.20	Permitted Dividends	
		Interim dividend of \$0.25 ⁹	Balance of the Permitted Dividends of \$0.75
On or before 5 July 2013	✓	✓	✓
After 5 July 2013	✓	✗	✓

3.16 WHEN WILL THE PERMITTED DIVIDENDS BE PAID?

On 19 July 2013, a Permitted Dividend of \$0.25 per Share will be paid as an interim dividend for FY13 to Shareholders who are the registered holders of Shares on the record date of 5 July 2013.

The timing of payment of further Permitted Dividends has been structured to ensure that the record date for all such dividends will pass before Shares accepted into the Offer are transferred to ADM Australia.

If GrainCorp receives notice from ADM Australia that it will free the Offer from all Conditions¹⁰ before the time of the announcement of the FY13 full year results (which is expected to be in mid-November 2013), it is expected that a final Permitted Dividend of an amount equal to \$0.75 per Share will be announced shortly after the notice is received.

If GrainCorp has not received notice of the kind referred to above before the time of the announcement of the FY13 full year results, it is expected that a final dividend for FY13, being a Permitted Dividend, will be announced for payment to Shareholders. The amount of any such dividend will depend on, among other things, GrainCorp's performance during FY13, however it will not be more than \$0.75 per Share. If the aggregate of the interim dividend and any final dividend for FY13 is less than \$1.00 per Share, it is expected that a further Permitted Dividend equal to the shortfall (plus any Earnings Dividend) will be declared and announced by the GrainCorp Board shortly before the Offer becomes unconditional.

8. Shareholders who do not accept the Offer will also be entitled to receive the Permitted Dividends, if they hold Shares at the record dates for those dividends.

9. On 16 May 2013, the GrainCorp Board declared a fully franked interim dividend for FY13 of \$0.25 per Share (including a special dividend of \$0.05 per Share), with a record date of 5 July 2013 and a payment date of 19 July 2013. The interim dividend forms part of the \$1.00 per Share of Permitted Dividends, leaving \$0.75 available for distribution.

10. Under the Bid Implementation Deed, ADM must notify GrainCorp in writing at least 10 Business Days before it intends to free the Offer from the last of the Conditions remaining outstanding such that the Offer becomes unconditional.

3.17 WHAT IS THE EARNINGS DIVIDEND AND WHEN WOULD IT BE PAID?

Shareholders may also become entitled to receive an Earnings Dividend, being a dividend of an aggregate amount equal to 3.5 cents per Share for each full month for the period between 30 September 2013 and the Earnings Dividend End Date, being the earliest of:

- the earliest date on which all of the Regulatory Conditions have been satisfied or waived;
- the date on which ADM terminates the Bid Implementation Deed as a result of any GrainCorp Director changing or withdrawing his or her recommendation of the Offer or publicly recommending a Competing Proposal; and
- the date on which a majority of the GrainCorp Directors publicly withdraw or change their recommendation of the Offer or publicly recommend a Competing Proposal.

Payment of the Earnings Dividend is subject to the net profit after tax of the GrainCorp Group being positive over the period during which the Earnings Dividend accrues, as described above. The purpose of the Earnings Dividend is to ensure Shareholders receive a proportion of FY14 earnings in the event that completion of the Offer is delayed as a result of the regulatory approval processes related to the Regulatory Conditions. Any such dividend is expected to be fully franked.

For example, if the Earnings Dividend End Date is 1 December 2013 and the profit test described above is satisfied, an Earnings Dividend of 7 cents per Share will be declared and announced by the GrainCorp Board at the time specified below.

You will be entitled to receive the Earnings Dividend (if any) if you are the registered holder of Shares at the record date for that dividend. It is expected that the Earnings Dividend (if any) will be declared and announced by the GrainCorp Board shortly before the Offer becomes unconditional (subject to GrainCorp receiving notice from ADM Australia that it will free the Offer from all Conditions) – that is, at the time when the last Permitted Dividend is declared and announced by the GrainCorp Board. The record date for any such dividend will be announced at the same time as the dividend is announced.

3.18 IS THE OFFER SUBJECT TO ANY CONDITIONS?

Yes. The Conditions are set out in full in section 12.8 of the Bidder's Statement and are summarised in Section 1.

ADM Australia has set 23 August 2013 as the date on which it will give GrainCorp and ASX the Notice of Status of Conditions (however this date may be postponed if the Offer Period is extended). If, before that date, one of the Conditions is fulfilled, ADM Australia must give GrainCorp and ASX notice of the fulfilment of that Condition.

ADM Australia may waive the benefit of any or all of the Conditions by giving a notice to GrainCorp and ASX in accordance with section 650F of the Corporations Act.

3.19 WHAT ARE THE REGULATORY CONDITIONS AND WHEN WILL THEY BE SATISFIED?

The Regulatory Conditions are Conditions of the Offer. They relate to a number of regulatory approvals that must be obtained by ADM Australia to avoid the acquisition of Shares under the Offer breaching competition and foreign investment laws. These include approvals from the relevant competition authorities in Canada, China, Europe, Japan, South Korea and South Africa, and no objection by FIRB and ACCC in Australia. Further, in its Bidder's Statement, ADM Australia states that while ADM has obtained US antitrust approval, it may be necessary to reapply for such approval if there are any extensions to the Offer Period.

The process for seeking these approvals has already commenced. The timing for completion of this process is uncertain and it may be several months or more before all regulatory approvals required to satisfy the Regulatory Conditions are obtained.

Further details about the Regulatory Conditions are set out in sections 11.4, 11.5 and 12.8 of the Bidder's Statement.

3.20 WHAT IS THE STATUS OF THE CONDITIONS?

As at the date of this Target's Statement:

- no Condition has been satisfied or waived; and
- GrainCorp is not aware of any fact, matter or circumstance that would result in any Condition becoming incapable of being satisfied.

Sections 6.8(a) and 6.8(b) contain an overview of change of control provisions that may be triggered under material contracts to which the GrainCorp Group is a party if ADM Australia acquires a relevant interest in more than 50% of the Shares and the Offer becomes unconditional. The exercise of rights under such provisions could not result in a breach of the Change of Control Condition because the provisions were fairly disclosed to ADM in writing before 2 May 2013 and the disclosures were not misleading or deceptive. GrainCorp is not aware of any other change of control rights which individually or in aggregate could result in the breach or non-satisfaction of the Change of Control Condition.

3.21 WHAT HAPPENS IF ANY CONDITION IS NOT SATISFIED OR WAIVED?

If any Condition is not satisfied or waived:

- all acceptances of the Offer and all contracts resulting from acceptance of the Offer will be void;
- no Shares will be transferred to ADM Australia under the Offer and Shareholders will not receive the ADM Payment for their Shares;
- GrainCorp will continue to be listed on the ASX; and
- Shareholders will be entitled to be paid and/or retain (as applicable) any Permitted Dividend that has been declared by the GrainCorp Board (subject to them holding Shares at the record date for such dividend).

3.22 WHAT CHOICES DO I HAVE AS A SHAREHOLDER?

As a Shareholder you have the following choices:

- accept the Offer for all of your Shares;
- reject the Offer by doing nothing; or
- sell some or all of your Shares on market (unless you have already accepted the Offer and have not validly withdrawn your acceptance).

Further details about these choices are set out in Section 1.

3.23 HOW DO I ACCEPT THE OFFER?

To accept the Offer, you need to follow the instructions set out in section 12.3 of the Bidder's Statement and on the Acceptance Form.

3.24 WHAT ARE THE CONSEQUENCES OF ACCEPTING THE OFFER AND CAN I WITHDRAW MY ACCEPTANCE?

If you accept the Offer before the FIRB Condition is satisfied, you will be free to withdraw your acceptance at any time before that Condition is satisfied. Once the FIRB Condition is satisfied, you will only be able to withdraw your acceptance if ADM Australia varies the Offer in a way that postpones, for more than one month, the time when ADM Australia has to meet its obligations under the Offer and the Offer remains conditional. In this circumstance, you will have one month to exercise your withdrawal right.

If you accept the Offer and are not entitled to withdraw your acceptance, you will be unable to sell your Shares on market or otherwise deal with your Shares while the Offer remains open, including forfeiting the opportunity to accept any Superior Proposal that may emerge during the Offer Period.

If you require details of how to withdraw your acceptance of the Offer, please contact the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday.

3.25 WHAT HAPPENS IF ADM AUSTRALIA IMPROVES THE OFFER AFTER I HAVE ACCEPTED?

If you accept the Offer and ADM Australia subsequently increases the amount of the ADM Payment, you will be entitled to the increased ADM Payment if the Offer is or becomes unconditional.

3.26 WHAT ARE THE TAX IMPLICATIONS OF DISPOSING OF SHARES UNDER THE OFFER?

A general outline of the tax implications of disposing of Shares under the Offer is set out in Section 5. Shareholders are encouraged to seek professional advice in relation to the tax implications applicable to their personal circumstances.

3.27 WHAT HAPPENS IF I DO NOTHING?

The implications of you doing nothing will depend on the ultimate shareholding in GrainCorp achieved by ADM Australia. That is:

- if ADM Australia achieves a shareholding of at least 90% and proceeds to compulsorily acquisition of all outstanding Shares in accordance with Part 6A.1 of the Corporations Act, then your Shares will be acquired by ADM Australia on the terms of the Offer and you will cease to be a Shareholder. ADM Australia has stated in section 9.3 of the Bidder's Statement that it intends to proceed to compulsory acquisition of outstanding Shares, if it becomes entitled to do so;
- if ADM Australia achieves a shareholding of between 50% and 90%, you will remain a Shareholder and will be exposed to the risks related to holding an investment in GrainCorp (as described in Section 4.11) and risks associated with being a minority Shareholder (as described in Section 2.3(d)); and
- if ADM Australia acquires a relevant interest in less than 50% of the Shares, waives the Minimum Acceptance Condition and the Offer becomes unconditional, ADM Australia has stated in section 9.5 of the Bidder's Statement that it intends to, among other things, seek to obtain representation on the GrainCorp Board so that the proportion of ADM Australia's nominees is broadly in line with its voting power in GrainCorp (see section 9.5 of the Bidder's Statement for further details of ADM Australia's intentions in this circumstance).

3.28 WHAT IF I WANT TO SELL MY SHARES ON MARKET?

During the Offer Period, you may sell some or all of your Shares on market for cash provided you have not accepted the Offer for those Shares. Before doing so, you should carefully consider the implications of this course of action, including that you would not receive the benefit of any increase in the amount of the ADM Payment and would not receive any Permitted Dividend or the Earnings Dividend (if any) (and any associated franking credits) having a record date after the date on which you cease to be the registered holder of your Shares. You will also forfeit the ability to accept any Superior Proposal that may emerge. If you sell your Shares on market, you may incur a brokerage charge.

3.29 WILL I PAY BROKERAGE IF I ACCEPT THE OFFER?

If your Shares are held on GrainCorp's issuer sponsored sub-register in your name and you deliver them directly to ADM Australia, you will not incur any brokerage in connection with your acceptance of the Offer.

If your Shares are registered in a CHESS Holding, or if you are a beneficial owner whose Shares are registered in the name of a broker, bank, custodian or other nominee, you should ask your Controlling Participant (usually your broker) or that nominee whether it will charge any transaction fees or service charges in connection with acceptance of the Offer.

3.30 IF I HAVE FURTHER QUESTIONS IN RELATION TO THE OFFER WHAT CAN I DO?

If you have any queries regarding the Offer, please contact the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday.

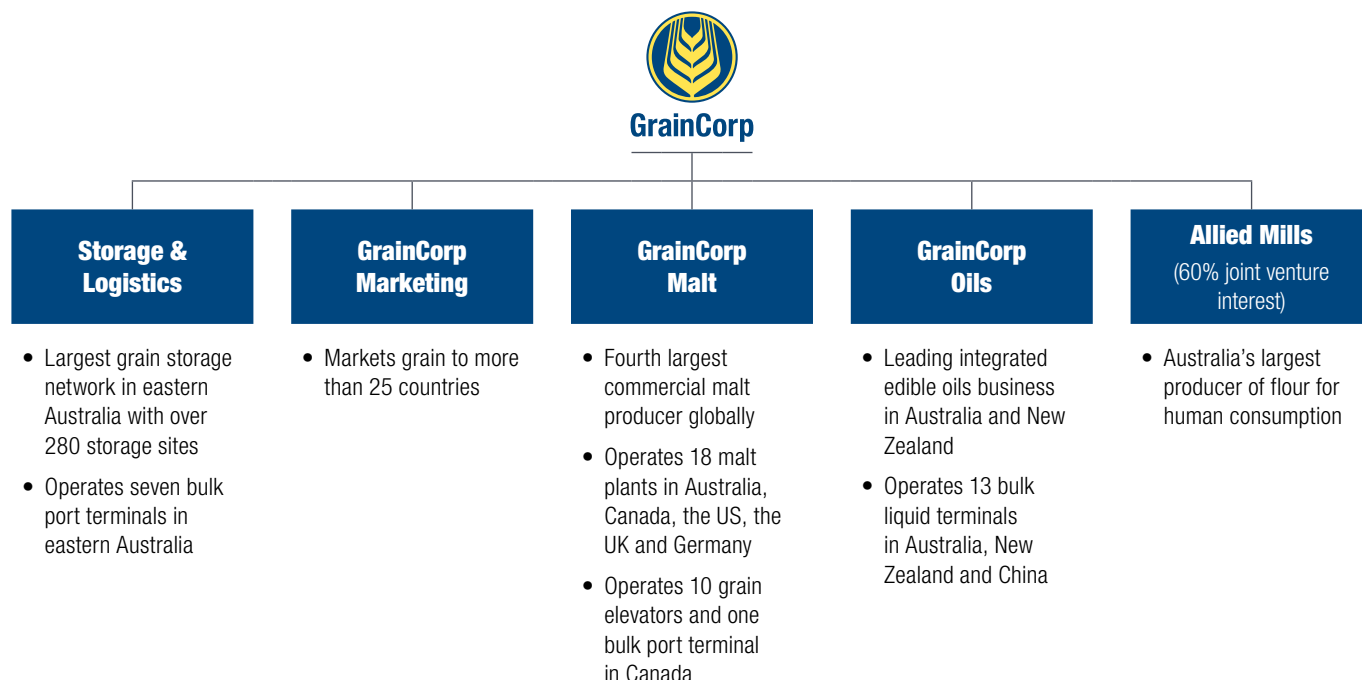
4. OVERVIEW OF GRAINCORP



4.1 OVERVIEW OF GRAINCORP

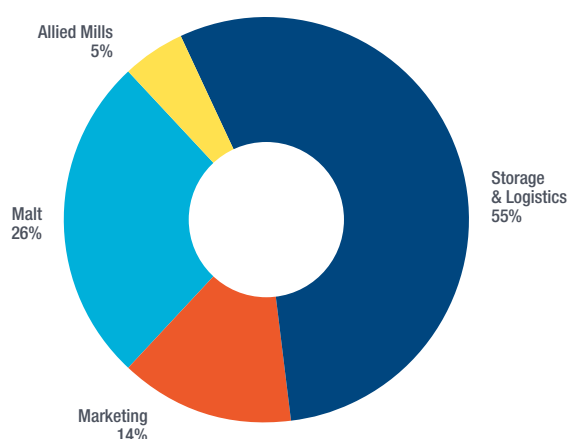
GrainCorp is Australia's leading agribusiness with an integrated business model across three grain activities: storage & logistics, marketing and processing. GrainCorp focuses its activities on three core grains (wheat, barley and canola) where the company has comparative advantages through grain origination, freight differentials and technical expertise. GrainCorp has operations in Australia, New Zealand, North America and Europe (including the United Kingdom), which collectively represent over 50% of global export trade in wheat, barley and canola.

GrainCorp has five reporting segments as shown in the following diagram.

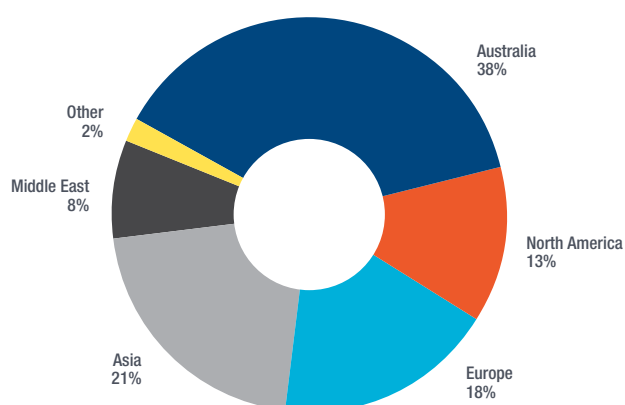


GrainCorp is listed on the ASX with a market capitalisation of A\$2.9 billion as at 21 June 2013. For the fiscal year ended 30 September 2012, GrainCorp generated EBITDA of \$413.9 million and NPAT of \$204.9 million.¹¹ For the six months ended 31 March 2013, GrainCorp generated EBITDA of \$227.4 million and NPAT of \$108.5 million.¹²

FY12 EBITDA by segment¹



FY12 Revenue by geography



1. EBITDA breakdown before Corporate and Eliminations. EBITDA includes 60% share of Allied Mills EBITDA.

11. EBITDA and NPAT exclude significant items totalling \$14.7 million (pre-tax) or nil (post-tax) comprising defined benefit plan adjustment, Gardner Smith and Integro Foods acquisition related costs, adjustment to deferred tax and share of Allied Mills insurance claim.

12. EBITDA and NPAT exclude significant items totalling \$(20.1) million (pre-tax) or \$(20.3) million (post-tax) comprising takeover response costs, GrainCorp Oils acquisition and integration costs and GrainCorp Malt acquisition trade tax and associated income.

4.2 STORAGE & LOGISTICS

GrainCorp's Storage & Logistics division is the largest provider of grain storage, logistics and port elevation services in eastern Australia (Queensland, New South Wales and Victoria).

GrainCorp's Storage & Logistics business receives, stores and transports grain produced across the eastern Australia grain belt, with a network of more than 280 receival and storage sites and the capacity to store in excess of 20 million tonnes of grain. The country storage network handles approximately 55–60% of the annual eastern Australia grain harvest and the Logistics business has an approximate 60% share of eastern Australia's grain rail freight capacity. The GrainCorp network is open to third parties and up to 80% of the grain passing through it is owned or traded by a third party.

GrainCorp's Port business operates seven bulk grain export terminals in eastern Australia with annual bulk elevation capacity of approximately 16 million tonnes. The company's bulk grain export terminals are located at Mackay, Gladstone, Fisherman Islands (Brisbane), Carrington (Newcastle), Port Kembla, Geelong and Portland. GrainCorp also operates three container facilities at Fisherman Islands, Sunshine (Melbourne) and Geelong. Through its ports network, GrainCorp handles approximately 85% of eastern Australia's bulk grain exports, as well as more than 2 million tonnes of non-grain exports and imports each year.

In FY12, the GrainCorp country network received 12.2 million tonnes of grain and handled 10.6 million tonnes of grain exports and 2.3 million tonnes of non-grain exports and imports through its port terminals.

4.3 GRAINCORP MARKETING

GrainCorp Marketing is a major Australian grain marketer, buying and selling wheat, barley, canola, sorghum and pulses, servicing Australian and international customers. GrainCorp's approach is to match grain supply and demand through buying grain from growers, owning and managing along the supply chain and selling to end consumers.

GrainCorp Marketing's presence extends across Australia's grain growing regions, and internationally, in Singapore, Germany (Hamburg), the UK and Canada (Calgary).

In FY12, GrainCorp traded 6.9 million tonnes of grain and oilseeds with 2.5 million tonnes delivered to Australian customers and 4.4 million tonnes delivered to international customers.

4.4 GRAINCORP MALT

GrainCorp Malt is the world's fourth largest commercial malt producer, with operations in the US as Great Western Malting, in Canada as Canada Malting Company, in Australia as Barrett Burston Malting, in the UK as Bairds Malt and in Germany as Schill Malz.

GrainCorp Malt was formed following the acquisition of United Malt Holdings in November 2009. GrainCorp subsequently acquired Kirin Malt in Australia in April 2011 and German Malt (renamed Schill Malz) in Germany in October 2011.

GrainCorp Malt currently operates 18 malt plants with total annual malting capacity of approximately 1.4 million tonnes. GrainCorp Malt's manufacturing facilities are strategically located in, or with good access to, the world's key barley growing and trading regions. GrainCorp Malt's operational footprint extends across three continents with manufacturing in regions that account for around 60% of the world's barley production and 80% of malt exports.

GrainCorp Malt supplies malt to more than 1,000 customers around the world including global, regional and craft brewers, scotch whisky distillers and food manufacturers. Approximately 60% of sales are to domestic customers and 40% are exported outside of the country of production.

In FY12, GrainCorp Malt had sales of 1.32 million tonnes of malt, successfully integrated Schill Malz adding 190,000 tonnes of annual production capacity and commissioned a new malting facility at Pinkenba, Queensland, with annual production capacity of 86,000 tonnes.

4.5 GRAINCORP OILS

GrainCorp Oils is a leading integrated edible oils business in Australia and New Zealand, operating through Riverland Oilseeds and Integro Foods. GrainCorp Oils, through its Pacific Terminals business, is a leading operator of bulk liquid port terminals in Australasia and operates complementary used oil recycling and animal feed businesses.

GrainCorp Oils was created following the acquisition of the Gardner Smith Group and Goodman Fielder's commercial fats and oils business, Integro Foods, in October 2012.

Riverland Oilseeds is Australia's second largest oilseed crusher, with capacity to crush more than 300,000 tonnes of oilseeds annually across three manufacturing facilities located in Numurkah (Victoria), Millicent (South Australia) and Pinjarra (Western Australia). Pacific Terminals operates 13 bulk liquid terminals in Australia (7), New Zealand (5) and China (1), with capacity to handle up to 1 million cubic metres of bulk liquids each year.

Integro Foods is Australia's largest refiner of edible fats and oils for customers in the food industry, with supply agreements with Goodman Fielder for finished goods and ingredients. Integro Foods has more than 280,000 tonnes of edible fats and oils refining and packaging capacity across three manufacturing facilities located in West Footscray (Victoria) and Murarrie (Queensland) in Australia and Auckland in New Zealand.

4.6 ALLIED MILLS

GrainCorp has a 60% joint venture interest in Allied Mills (Cargill owns the remaining 40% interest), an Australian-based manufacturer and distributor of food ingredients and semi-finished products.

Allied Mills has a flour milling and pre-mixing manufacturing footprint with operations in all of the mainland states of Australia. Allied Mills operates a network of seven flour mills and four mixing plants, three frozen product manufacturing facilities and a starch plant, supported by warehouse and distribution capabilities. The company processes over 800,000 tonnes of high protein and soft milling wheat and other grains each year.

Allied Mills has a wide range of customers incorporating major independent and multinational food manufacturers, supermarket retailers and foodservice operators.

4.7 GRAINCORP'S STRATEGY

GrainCorp's business model is based on:

- **Three core grains** – wheat, barley and canola. GrainCorp focuses on the 'drier climate' grains where GrainCorp has comparative advantages of grain origination, freight differentials and technical expertise.
- **Three integrated grain activities** – storage & logistics, marketing and processing. GrainCorp creates and captures value in its core grains along the grain chain, with insight into consumer requirements in these grains.
- **Three operating geographies** – Australasia, North America and Europe. These regions collectively service over 50% of the global trade in GrainCorp's core grains, providing market insight, price risk management and multi-origin capability.

GrainCorp creates and captures value for consumers, growers and shareholders from the following competitive advantages:

- **Strategic assets** – GrainCorp's unique "end to end" infrastructure network at all stages of the grain chain in GrainCorp's three core grains.
- **Freight advantage** – Proximity to the world's growth markets for grain: Asia, Middle East and Africa.
- **Grain origination** – Access to grain with strong quality advantages to satisfy a diversified range of consumer products.

GrainCorp is currently pursuing strategic initiatives aimed at delivering incremental underlying EBITDA of approximately \$110 million by the end of the 2016 financial year. GrainCorp expects to invest \$250 million in capital expenditure to implement these initiatives.¹³

a. "Gamechangers" initiatives

On 24 May 2012, GrainCorp announced the "Gamechangers" plan to deliver \$40 million of incremental EBITDA by the end of the 2014 financial year. On 15 November 2012, the company subsequently upgraded this plan to approximately \$45 million of incremental EBITDA by the end of the 2015 financial year. Under the "Gamechangers" plan, GrainCorp expects to invest \$70 million in capital expenditure¹³ on the implementation of the following initiatives:

- **Storage & Logistics** – Initiatives underway to strengthen and optimise the grain supply chain by improving efficiency to maximise grain volumes.
- **Marketing** – Initiatives underway to grow the GrainCorp marketing business, both domestically and internationally, through volume and margin growth by broadening relationships with customers and expanding the origination footprint.
- **Malt** – Operational excellence initiatives underway, as well as strategies to capture additional malt supply chain value by harnessing the grain processing footprint and capability to develop superior customer offerings through a global customer proposition in malt sales and barley procurement.

13. Excluding \$20 million of capital expenditure spent in FY12 on "Gamechanger" initiatives.

b. Asset Optimisation initiatives

On 15 November 2012, GrainCorp announced the Asset Optimisation initiatives to deliver approximately \$45 million of incremental EBITDA by the end of the 2016 financial year. Under the Asset Optimisation plan, GrainCorp expects to invest \$180 million in capital expenditure on implementation of the following initiatives:

- **Oils** – A number of initiatives have been identified within GrainCorp Oils. An integration plan is being implemented to realise synergies. GrainCorp is developing a plan to strengthen and optimise the Oils network, building on the company's leading Australian presence.
- **Ports** – GrainCorp has a program underway to rollout continuous improvement initiatives across the Ports business and increase non-grain volumes at the bulk grain port terminals and grow bulk liquid terminal capacity to service growing demand for storage of non-edible oil bulk liquids.

c. Port Flexibility initiatives

GrainCorp's Port Flexibility initiatives were announced on 15 November 2012 and are expected to deliver incremental EBITDA of \$20 million by the end of the 2016 financial year and requiring minimal capital expenditure.

Subsequently, on 30 November 2012, GrainCorp announced two developments that are expected to substantially improve the flexibility and international competitiveness of the company's bulk grain port terminals:

- the ACCC confirmed that it will not object to GrainCorp offering long-term agreements to exporters for access to its ports; and
- the Australian Federal Parliament passed the Wheat Export Marketing Amendment Bill 2012 which provides for an industry code of conduct which would, if prescribed, replace the existing Port Access Undertaking arrangements from 1 October 2014.

These new port protocols are expected to allow GrainCorp's port terminals to operate with increased planning and flexibility. This provides GrainCorp the opportunity to significantly improve the efficiency of its bulk grain export operations, allowing for better long-term planning and improved demand management.

In May 2013, GrainCorp offered and customers secured 3.8 million metric tonnes in long term capacity for the 3-year period 1 October 2013 to 30 September 2016.

4.8 GRAINCORP FINANCIAL INFORMATION

On 16 May 2013, GrainCorp released its half year results which are contained in the Appendix 4D and Interim Financial Report for the half year ended 31 March 2013 disclosing a net profit after tax and before significant items of \$108.5 million¹⁴ and net profit after tax of \$88.2 million.

GrainCorp financial reports, including the half year results release, are available on the company's website at www.graincorp.com.au.

4.9 SUBSTANTIAL SHAREHOLDERS

As at 21 June 2013 (being the last practicable date prior to the date of this Target's Statement), the following persons were substantial holders of Shares based on disclosures made to ASX:

Shareholder	Number of Graincorp Shares	% held ¹
ADM Australia ²	45,420,054	19.85%
UBS and associates	19,545,522	8.54%
National Australia Bank and associates	18,054,822	7.89%
Deutsche Bank and associates	12,156,063	5.31%

1. Based on 228,855,628 Shares.

2. GrainCorp is taken to also have voting power in these Shares held by ADM Australia as a result of the standstill arrangements described in Section 6.1(e).

14. Significant items totalling \$(20.1) million (pre-tax) or \$(20.3) million (post-tax) comprising takeover response costs, GrainCorp Oils acquisition and integration costs and GrainCorp Malt acquisition trade tax and associated income. GrainCorp defines significant items as not in the ordinary course of business, non-recurring and material in nature and amount.

4.10 GRAINCORP DIRECTORS

The GrainCorp Directors as at the date of this Target's Statement and their profiles are set out below.

Name	Profile
Mr Don C Taylor Chairman and Non-executive Director <i>BCom, CA, GradCertRurSc, FAICD</i>	Don Taylor joined the GrainCorp Board in October 2003 and has been Chairman of the GrainCorp Board since December 2005. Mr Taylor is a member of the Human Resources Committee and the Business Risk Committee as well as attending all meetings of the Board Audit Committee and the Nominations and Corporate Governance Committee. Mr Taylor has farming interests and extensive experience acting as Chairman and Director on boards of public companies in the agriculture industry.
Ms Alison M Watkins Managing Director and Chief Executive Officer <i>BCom, FCA, SF Fin, FAICD</i>	Alison Watkins has been Managing Director and CEO since July 2010. Ms Watkins attends all meetings of the Nominations and Corporate Governance Committee, Business Risk Committee, Board Audit Committee and Human Resources Committee. Ms Watkins has held a number of executive roles across a variety of industries and is a former partner of McKinsey & Company. She currently sits on the board of the Centre for Independent Studies, is a Non-executive Director of Australia and New Zealand Banking Group Limited and a Non-executive Director and Chairman of Allied Mills.
Ms Barbara J Gibson Non-executive Director <i>BSc, MAICD, FTSE</i>	Barbara Gibson joined the GrainCorp Board in March 2011. Ms Gibson is a member of the Business Risk Committee and the Nominations and Corporate Governance Committee. Ms Gibson is an experienced executive having spent 20 years with Orica Limited. She is a fellow of the Australian Academy of Technological Sciences and Engineering and is currently a Director of Nuplex Industries Limited, Warakirri Holdings Pty Limited and Warakirri Dairies Pty Limited and Chairman of Warakirri Asset Management Pty Limited.
Mr Donald G McGauchie Non-executive Director <i>AO FAICD</i>	Donald McGauchie rejoined the GrainCorp Board in December 2009 (having previously served during the period from October 2000 to July 2003). Mr McGauchie is Chairman of the Human Resources Committee and is currently a Director of James Hardie plc, Chairman of Nufarm Limited and Chairman of Australian Agricultural Company Limited. Mr McGauchie has farming interests and extensive experience acting as Chairman and Director on public company boards.
Mr Peter J Housden Non-executive Director <i>BCom, FCPA, FAICD</i>	Peter Housden joined the GrainCorp Board in October 2008. Mr Housden is Chairman of the Board Audit Committee and is currently Chairman of Royal Wolf Holdings Limited and a Director of Alliance Aviation Services Limited and Calibre Group Limited. Mr Housden is a member of the Audit & Risk Committee for the Central Coast Local Health District in NSW. He has extensive experience acting on public company boards.
Mr Daniel J Mangelsdorf Non-executive Director <i>BAGec(Hons), FAICD</i>	Dan Mangelsdorf joined the GrainCorp Board in February 2005. Mr Mangelsdorf is Chairman of the Business Risk Committee and a member of the Board Audit Committee. Mr Mangelsdorf owns and operates farming interests in NSW, and is an experienced company director with agricultural, supply chain, international trade and risk management expertise.
Mr David B Trebeck Non-executive Director <i>BScAgr(Hons), MEd, FAICD</i>	David Trebeck joined the GrainCorp Board in February 2002. Mr Trebeck is Chairman of the Nominations and Corporate Governance Committee and a member of the Human Resources Committee. Mr Trebeck is currently Chairman of Penrice Soda Holdings Limited and a Director of PrimeAg Australia Ltd. He has farming interests and is an ACT divisional councillor of the Australian Institute of Company Directors.
Mr Simon L Tregoning Non-executive Director <i>BCom</i>	Simon Tregoning joined the GrainCorp Board in December 2008. Mr Tregoning is a member of the Board Audit Committee and member of the Nominations and Corporate Governance Committee. He is currently a Director of Capilano Honey Limited. As well as having extensive overseas executive experience, Mr Tregoning is an experienced Australian public company Director.

4.11 RISKS ASSOCIATED WITH HOLDING SHARES

There are various risks associated with continuing to hold Shares that Shareholders should be aware of before deciding whether or not to accept the Offer. Some of these risks are specific to GrainCorp and its business while others are risks of a more general nature that apply to any stock market investment.

The list of risks set out below is not exhaustive and does not take into account the personal circumstances of Shareholders. These risks should be read in conjunction with the matters outlined in Sections 2.3 and 6.8. Shareholders should seek professional advice if they are in any doubt about the risks associated with accepting or not accepting the Offer having regard to their investment objectives and financial circumstances.

a. Risks affecting GrainCorp's business

- **(Adverse weather conditions)** Adverse weather conditions can cause a reduction in grain production, which may negatively impact GrainCorp's operating results in a number of ways, including by lowering the volume of grain that GrainCorp stores, handles, transports, trades, exports and uses in its business, as well as by negatively affecting the creditworthiness of agricultural producers who transact with GrainCorp.
- **(Other external factors)** GrainCorp's business and financial performance are also subject to other external factors, including farmer sowing decisions, domestic and international government farm support programs and policies, demand for biofuels, commodity price volatility, the outbreak of a plant disease or pest and the occurrence of and resistance of pests to pesticides used to protect grain in storage.
- **(Regulation)** GrainCorp's business is regulated by a range of laws and regulations in countries where GrainCorp operates. GrainCorp may be subject to costs, investigations, penalties, liabilities, loss of reputation and other adverse effects as a result of failure to comply with these laws and regulations. Further, the introduction of new laws and regulations could materially adversely impact GrainCorp's business and financial performance, for example by necessitating increased levels of expenditure on compliance, monitoring, controls, access regimes and arrangements and land use restrictions.
- **(Transportation)** GrainCorp's operations rely on rail and road transportation to move grain from farms into country storage sites, and from these sites to port terminals and domestic consumers. A disruption or delay in rail transportation service provision, for instance as a result of temporary or permanent rail track closures, may adversely impact GrainCorp's operations and operating results. GrainCorp also charters vessels in and to international jurisdictions to transport products to consumers. A disruption in international shipping activities, for instance ship diversion, port blockages or acts of piracy, may adversely impact GrainCorp.
- **(Operational risks)** GrainCorp's business is subject to various operational risks, including claims and disputes in relation to grain or finished product inventory, machinery breakdown, supply issues, loss of long term agreements for supply or for premises, regulatory requirements, workplace disputes and impacts of environmental obligations.
- **(Market demand)** During times of reduced market demand for grain, GrainCorp may suspend or reduce operations and production at some of its facilities. The extent to which GrainCorp efficiently manages available capacity at its facilities will affect its profitability.
- **(Commodity prices)** GrainCorp's business may be adversely affected by changes in the price of commodities, additional raw materials, the cost of energy and other utility costs caused by market fluctuations beyond GrainCorp's control, which have in the past, and could in the future, adversely affect margins.
- **(Hedging risk)** GrainCorp engages in hedging transactions to manage risks associated with fluctuations in the price of commodities, transportation costs, energy and utility prices, interest rates and foreign currency exchange rates. However, GrainCorp's hedging strategies may not be successful in minimising its exposure to these fluctuations. Further, it is possible that GrainCorp's risk management policies may not successfully prevent GrainCorp's traders from entering into unauthorised transactions that have the potential to alter or impair GrainCorp's financial position.
- **(Food and feed industry risks)** GrainCorp is subject to food and stockfeed industry risks such as spoilage, contamination, fumigation or treatment applications which do not meet destination requirements, incorrect grade classification, tampering or other adulteration of products, product recalls, government regulation, destination or industry standards, shifting customer and consumer preferences and concerns and potential product liability claims. These matters could adversely affect GrainCorp's business and operating results.
- **(Capital requirements)** GrainCorp requires significant amounts of capital to operate its business and fund capital expenditure. If GrainCorp is unable to generate sufficient cash flows, or raise sufficient external financing on acceptable terms to fund these activities, GrainCorp may be forced to limit its operations and growth plans, which may adversely impact efficiency, productivity, competitiveness and financial results.
- **(Debt obligations)** GrainCorp's debt obligations are subject to certain operating, financial and other covenants. If GrainCorp fails to meet these covenants, GrainCorp may be forced to repay those debt obligations on demand. GrainCorp may also not be able to put in place new debt facilities on acceptable terms by the time existing debt facilities expire.
- **(Global and regional economic conditions)** The level of demand for GrainCorp's services and products is affected by global and regional demographic and macroeconomic factors, including population growth rates and changes in standards of living. A significant downturn in global economic growth, or recessionary conditions in major geographic regions, may lead to a change in consumer preferences impacting demand for grain and agricultural commodities, such as malt and flour, which could materially adversely affect GrainCorp's business and financial performance.

- **(Customers and suppliers)** The current weak global economic conditions and the tightening of credit markets have adversely affected, and may in the future continue to adversely affect, the financial viability of some of GrainCorp's customers, suppliers and other counterparties, which in turn may negatively impact GrainCorp's operations and financial performance.
- **(Acquisitions)** While GrainCorp was satisfied with the due diligence conducted on its acquisitions, including most recently Integro and Gardner Smith, it was unable to verify the accuracy or completeness of all information provided to it by or on behalf of the vendors by reference to independent data. To the extent that any information is incomplete, inaccurate or misleading, there is a risk that the profitability and future results of the operations of the GrainCorp Group may differ (including in a materially adverse way) from GrainCorp's expectations, or that additional liabilities may emerge.
- **(Financial results)** On 16 May 2013, GrainCorp released guidance in relation to the outlook for FY13. This guidance related to expected receivables and profit margins.¹⁵ Due to the risks associated with GrainCorp's business, including those outlined in this Section 4.11, GrainCorp's actual financial results for the financial year ended 30 September 2013 may differ from the guidance provided.

b. General risks

- **(Economic risks)** General economic conditions, fluctuations in interest and inflation rates, commodity prices, currency exchange rates, energy costs, changes in governments, changes in fiscal, monetary and regulatory policies, the development of new technologies and other changes to general market conditions may have an adverse effect on GrainCorp, its future business activities and the value of GrainCorp Shares.
- **(Market conditions)** Share market conditions may affect the value of Shares regardless of GrainCorp's financial or operating performance. Share market conditions can be unpredictable and are affected by many factors including changes in investor sentiment toward particular market sectors (in particular agriculture and food supply) and the domestic and international economic outlook.
- **(Significant events)** Significant events may occur in Australia or internationally that could impact the market for commodities relevant to GrainCorp, GrainCorp's operations, the price of Shares and the economy generally. These events include war, terrorism, civil disturbance, political actions and natural events such as earthquakes and floods.

15. GrainCorp's HY13 Results and Strategy Investor Presentation released to the ASX on 16 May 2013.

5. TAXATION CONSIDERATIONS



5.1 INTRODUCTION

The following is a general summary of the Australian income tax, goods and services tax and stamp duty implications for Shareholders who dispose of their Shares pursuant to the Offer.

This summary is not an exhaustive or authoritative statement of the Australian taxation laws applicable to the specific circumstances of Shareholders. In particular, this summary is limited to Shareholders who:

- hold their Shares on capital account (i.e. do not hold them as part of a trading business or otherwise on revenue account);
- have not acquired their Shares in respect of any employment or the provision of any services; and
- dispose of them to ADM Australia pursuant to the terms of the Offer.

This summary relies on the Australian laws in force as at the date of this Target's Statement. It does not consider or anticipate any future changes in Australian laws.

This summary does not constitute taxation advice and should not be relied on as such.

Shareholders are advised to seek professional taxation advice regarding the Australian taxation implications applicable to their particular circumstances prior to accepting the Offer.

5.2 CLASS RULING

GrainCorp will apply to the Commissioner of Taxation for a class ruling on behalf of its Shareholders. Once issued, the class ruling will provide the Commissioner of Taxation's views regarding the following, amongst other matters:

- the entitlement of Shareholders to any imputation benefits attached to the Permitted Dividends and the Earnings Dividend (if any), including guidance as to the basis upon which Shareholders will satisfy the qualified person requirement; and
- confirmation that the Permitted Dividends and the Earnings Dividend (if any) should not form part of the capital proceeds received by Shareholders in connection with the disposal of their Shares on the basis that these dividends are not consideration for the transfer of the Shares themselves.

GrainCorp expects that the class ruling will be broadly consistent with the tax statements made in this Section 5 and anticipates that a draft class ruling will be issued by the Commissioner of Taxation during July 2013.

A final class ruling may not be released until after certain dates pertaining to the Offer are known (such as the ex-dividend date of the final Permitted Dividend and Earnings Dividend (if any)). Once a finalised class ruling is issued by the Commissioner of Taxation, it will be made available on the GrainCorp website (www.graincorp.com.au).

5.3 INCOME TAX IMPLICATIONS FOR AUSTRALIAN RESIDENTS

The following is a general statement of the Australian income tax implications for Shareholders who are Australian tax residents and who dispose of their Shares pursuant to the terms of the Offer.

a. Capital gain or loss

The disposal of Shares will constitute a capital gains tax (CGT) event which will trigger the operation of the CGT provisions.

Shareholders will make a capital loss if the capital proceeds from the disposal of their Shares are less than the cost base of those shares. A capital loss can be offset against a capital gain made in the same income year or carried forward to be offset against capital gains in later years.

Shareholders will make a capital gain if the capital proceeds from the disposal of their Shares exceed the cost base of those Shares. The capital gain less any applicable capital losses must be included in the assessable income of the Shareholder for the income year. This amount can be reduced to the extent that the Shareholder is entitled to a CGT discount (refer to paragraph (d) below).

b. Capital proceeds

Broadly, the capital proceeds arising from a disposal of Shares (which are used to determine a CGT liability) includes the money and market value of any property received or entitled to be received in respect of the disposal.

The Permitted Dividends and any Earnings Dividend should not form part of the capital proceeds received in respect of the Shares on the basis that these dividends are not consideration for the transfer of the Shares themselves.

c. Cost base

The cost base of a Shareholder's Shares should generally include the acquisition cost of those Shares in addition to any incidental costs associated with their acquisition and disposal.

d. CGT discount

Broadly, Shareholders who are individuals, trusts or complying superannuation funds may be entitled to a CGT discount on disposal of their Shares if they have been held for at least 12 months.

If available, the CGT discount will reduce a net capital gain that would otherwise be assessable by:

- 50% for individuals and trusts; or
- 33.3% for complying superannuation entities.

The CGT discount will generally not be available for Shareholders that are companies.

e. Assessability of GrainCorp dividends

Shareholders should include dividends paid to them by GrainCorp in their assessable income for the income year in which they are received.

f. Entitlement to franking credits

Provided a Shareholder is a 'qualified person' (refer to sub-paragraph (i) below), each Permitted Dividend and any Earnings Dividend paid to them should be 'grossed up' by the amount of franking credits attached to the dividends and any such Shareholder should be entitled to offset their tax liability by the amount of such franking credits (subject to certain integrity measures related to the 'qualified person' requirements).

The ability of a Shareholder to utilise the tax offset and the precise post-tax value of the franking credits will depend on their individual circumstances. This includes the income tax rate applicable to the particular shareholder (in respect of the tax year ending 30 June 2014: for individuals, from nil to 46.5% including the Medicare levy; for corporate entities, 30%; and for superannuation funds, generally 15%).

Generally, the integrity measures associated with the 'qualified person' requirements should not impact taxpayers who hold Shares, if they do not enter into other financial arrangements in relation to those Shares (e.g. options, futures) and they do not pass the benefit of the relevant dividend onto another person.

There are specific provisions which apply to taxpayers who hold interests in shares indirectly (e.g. through a trust or partnership). These provisions are not considered in this statement.

Shareholders who are not 'qualified persons' in relation to a dividend payment will not be entitled to the franking credit benefits attaching to that dividend.

(i) Qualified person requirement

Subject to sub-paragraph (ii) below, a Shareholder will be a 'qualified person' if they hold their Shares "at risk" for at least a single 45 day continuous period during the period commencing on the 45th day before, and ending on the 45th day after, the day on which the Shares become ex-dividend (i.e. the day after the last day on which the acquisition by a person of a Share will entitle that person to receive the dividend). The day of acquisition of the shares and the date of disposal of the Shares are not able to be counted as part of the 45 day continuous period.

(ii) Holding period rule – shares held "at risk"

A Shareholder must not have a materially diminished risk of loss or opportunity for gain on their Shares to hold their Shares "at risk". Whether the Shares are held "at risk" will depend on any arrangements that have been entered into in relation to the Shares (i.e. hedging strategies). It will also depend on when the Offer is accepted and when it becomes unconditional. Broadly, the Shares will be held "at risk":

- until the day before the Offer becomes unconditional, where the Offer has been accepted before it becomes unconditional;
- until the day before the Offer has been accepted, where the Offer has become unconditional before acceptance; or
- until the Shares are compulsorily acquired by ADM Australia, where the Offer is not accepted and ADM Australia proceeds to compulsory acquisition of outstanding Shares in accordance with the Corporations Act.

All Shareholders should however seek professional advice to determine the availability of franking credit benefits in light of their individual circumstances.

Refundable franking tax offset

If the franking offset received by a Shareholder is greater than their income tax liability for an income year and they are an individual or a complying superannuation fund, they may be entitled to a refund of the excess franking offset.

5.4 INCOME TAX IMPLICATIONS FOR FOREIGN RESIDENTS

For non-resident Shareholders, any capital gain or loss on sale of the Shares will be disregarded unless the Shareholder holds:

- a 'non-portfolio' interest in Shares; and
- Shares pass the 'principal asset test'.

Generally, a Shareholder will have a non-portfolio interest in GrainCorp if:

- they (and their associates) hold 10% or more of all Shares on the day the Shareholder disposes of their Shares; or
- they (and their associates) held 10% or more of all Shares throughout a 12 month period during the 24 months prior to the Shareholder's disposal of their Shares.

Broadly, Shares will pass the principal asset test if the market value of GrainCorp's direct and indirect interests in 'taxable Australian real property' is greater than the market value of its remaining assets.

If a Shareholder holds a non-portfolio interest in GrainCorp, they should inquire whether GrainCorp's interests in 'taxable Australian real property' satisfy the principal asset test.

Non-resident Shareholders are encouraged to seek professional advice for any potential CGT implications that may arise on the disposal of their Shares.

a. CGT discount

On the basis of recent announcements, it is expected that in the event that CGT will apply to the disposal of their Shares, non-resident Shareholders will not be entitled to a CGT discount.

b. Assessability of GrainCorp dividends

On the basis that the Permitted Dividends and any Earnings Dividend are expected to be fully franked, no dividend withholding tax should apply.

5.5 GOODS AND SERVICES TAX IMPLICATIONS

The GST implications of the disposal by Shareholders of their Shares will depend on whether a Shareholder is registered, or required to be registered for GST.

For Shareholders who are registered, or required to be registered for GST, no GST will apply to the disposal of their Shares as it will either be an input taxed financial supply or outside the scope of GST. In addition, depending on their particular circumstances, there may not be an entitlement to claim input tax credits in relation to GST paid on fees associated with partaking in the Offer (such as fees for advisory services provided to Shareholders).

For Shareholders who are not registered, or required to be registered for GST, there will be no GST implications as the disposal of their Shares will be outside scope of GST. As they are not registered for GST, there will be no entitlement to claim input tax credits in relation to GST paid on fees associated with partaking in the Offer.

5.6 STAMP DUTY IMPLICATIONS

There will be no stamp duty payable by Shareholders on the sale of Shares to ADM Australia under the Offer.

6. ADDITIONAL INFORMATION



6.1 BID IMPLEMENTATION DEED

The Bid Implementation Deed dated 25 April 2013 was entered into by GrainCorp and ADM to govern the implementation of the Offer.

A copy of the Bid Implementation Deed was lodged with ASX on 26 April 2013 and is available on the GrainCorp website (www.graincorp.com.au).

Terms of the Bid Implementation Deed include those summarised as follows:

a. Due diligence

GrainCorp allowed ADM to perform a seven day confirmatory due diligence process which commenced on the date of the Bid Implementation Deed. After completing that due diligence, ADM announced that ADM Australia intended to proceed with the Takeover Bid.

b. Conduct of business

GrainCorp must use reasonable endeavours to procure that the business of the GrainCorp Group is conducted in the ordinary course. GrainCorp is restricted from certain disposals, acquisitions and capital expenditure undertakings if the value exceeds a prescribed amount. These restrictions do not apply if GrainCorp has received ADM's prior written consent, which must not be unreasonably withheld.

GrainCorp is also restricted from entering into long term commitments, employment contracts and settling legal proceedings or incurring indebtedness, in each case where the value of the expenditure or commitment by GrainCorp exceeds a prescribed amount. There are exceptions to the restrictions which include allowing GrainCorp to obtain director and officer run-off insurance, the issue and vesting of GrainCorp Rights, expenditure in accordance with the agreed capital expenditure plan and the funding, announcement and payment of any Permitted Dividend or the Earnings Dividend (if any).

c. GrainCorp Board changes

GrainCorp must ensure that, no later than five Business Days after a change of control, which is when the Offer has become unconditional and ADM Australia has acquired a relevant interest in more than 50% of the Shares, those GrainCorp Directors nominated by ADM resign as directors of GrainCorp and those persons nominated by ADM are appointed as directors of GrainCorp. These obligations are subject to there being at least three members of the GrainCorp Board who are not nominees of ADM until the end of the Offer Period and ADM ensuring that its nominees do not participate in any discussions of the GrainCorp Board which relate to the Offer.

d. Exclusivity

- *No shop*: GrainCorp must not directly or indirectly solicit any Competing Proposal or any approach, inquiry or expression of interest which would reasonably be expected to lead to a Competing Proposal.
- *Matching right*: GrainCorp must not enter into any legally binding agreement or arrangement in relation to the implementation of any Competing Proposal and must procure that the GrainCorp Directors do not change or withdraw their recommendation to publicly recommend a Competing Proposal, unless:
 - GrainCorp has provided ADM Australia with written notice of the material terms and conditions of the Competing Proposal; and
 - ADM Australia has not, within two days after receipt of that notice, given written notice to GrainCorp in respect of a proposal which the GrainCorp Board considers, acting in good faith and after taking advice from GrainCorp's legal and financial advisers, would, if implemented in accordance with its terms, result in an outcome for Shareholders that is as favourable as or more favourable than the Competing Proposal.

e. Disposal standstill

From the date of the Bid Implementation Deed until 31 December 2013, ADM must not, and must procure that its Associates do not, without the prior written consent of GrainCorp, dispose of, or agree or offer to dispose of, any Shares in which ADM has a relevant interest as at the date of the Bid Implementation Deed.

f. No break fee

The Bid Implementation Deed does not provide for the payment of a break fee in any circumstances.

g. Termination

The Bid Implementation Deed will automatically terminate when the Offer Period ends and may be terminated:

- by either GrainCorp or ADM if the other commits a material unremedied breach of the deed or if the Offers are validly withdrawn;
- by ADM if any GrainCorp Director publicly withdraws or changes his or her recommendation of the Offer or publicly recommends a Competing Proposal, or if GrainCorp enters into any implementation (or similar) agreement in relation to a Competing Proposal; or
- by GrainCorp if a majority of the GrainCorp Directors publicly withdraw or change their recommendation of the Offer or publicly recommend a Competing Proposal, in either case where they are permitted to do so under the deed (see Section 3.9), or if any of the Regulatory Conditions is not satisfied by 31 December 2013.

6.2 PERMITTED DIVIDENDS AND EARNINGS DIVIDEND – FINANCIAL ASSISTANCE TO ADM AUSTRALIA

Section 260A of the Corporations Act allows a company to financially assist a person to acquire shares in the company, only in the circumstances stated in paragraphs (a), (b) or (c) of section 260A(1). Those circumstances are:

- if giving the assistance does not materially prejudice:
 - the interests of the company or its shareholders; or
 - the company's ability to pay its creditors;
- the assistance is approved by the company's shareholders in accordance with section 260B of the Corporations Act; or
- the assistance falls within one of the exemptions set out in section 260C of the Corporations Act (none of which apply in these circumstances).

The Corporations Act expressly provides that financial assistance may take the form of paying a dividend and may be given before or after the acquisition of shares. ADM Australia, in its capacity as a Shareholder, will be paid each Permitted Dividend and the Earnings Dividend (if any) declared by the GrainCorp Board (including the interim dividend for FY13), if it is the registered holder of Shares on the record dates for those dividends. It is possible that these dividends (to the extent paid) may be applied by ADM Australia to fund the acquisition of Shares under the Offer.

Based on information available to GrainCorp at the date of this Target's Statement, GrainCorp does not consider that the payment of the Permitted Dividends and/or the Earnings Dividend (if any) will materially prejudice the interests of GrainCorp or its shareholders or its ability to pay its creditors. The GrainCorp Directors have formed this view after carefully considering the financial position of GrainCorp, including the financing arrangements available to fund the payment of such dividends.

6.3 ISSUED CAPITAL

As at the date of this Target's Statement, GrainCorp's issued capital comprises 228,855,628 Shares.¹⁶ There are also 903,934 GrainCorp Rights on issue, as described below.¹⁷

6.4 GRAINCORP RIGHTS

a. Overview

As at the date of this Target's Statement, the number of GrainCorp Rights and their vesting or disposal restriction profiles is as follows:

Plan	Number of GrainCorp Rights	Vesting date or expiry of restriction period
DEP	240,538	October 2013
LTIP	216,042	October 2013
	275,451	October 2014
RSP	171,903	October 2013

Upon the vesting of a GrainCorp Right issued under the DEP or LTIP, the holder of such right is entitled to be issued or transferred one Share. Upon the expiry of the disposal restriction period applicable to a GrainCorp Right issued under the RSP, the trustee of the GrainCorp Employee Share Plan Trust must transfer to the holder of such right the Shares it currently holds on behalf of that holder.

As at the date of this Target's Statement, the trustee of the GrainCorp Employee Share Plan Trust holds:

- 684,778 Shares which are intended to be transferred to participants in the LTIP and DEP upon vesting of GrainCorp Rights issued under those plans. These Shares are sufficient to satisfy the vesting of all such GrainCorp Rights, other than 47,253 GrainCorp Rights held by DEP and LTIP participants based in the United Kingdom and Canada, the vesting of which are intended to be satisfied through purchases of Shares on market;
- 171,903 Shares on trust for participants in the RSP pending the expiry of disposal restriction periods which apply in respect of the 171,903 GrainCorp Rights granted under that plan. No additional Shares are required to be issued or purchased on market by GrainCorp to satisfy GrainCorp Rights granted under the RSP; and
- 522 Shares which are surplus to the number of Shares required to satisfy GrainCorp's obligations on vesting of GrainCorp Rights as set out above.

16. This includes 857,203 Shares held by the trustee of the GrainCorp Employee Share Plan Trust for the purposes described in Section 6.4.

17. The 903,934 GrainCorp Rights are comprised of 732,031 performance rights granted under the DEP and LTIP, and 171,903 restricted shares granted under the RSP which are held by the trustee of the GrainCorp Employee Share Plan Trust on behalf of the participants in the RSP.

A summary of the relevant terms of the employee incentive plans under which GrainCorp Rights have been granted is set out below.

b. Deferred Equity Plan (DEP)

The DEP forms part of the short term incentive for the senior leaders and traders/marketers and reflects achievement of key performance indicators in prior performance periods. Under this plan, participants are granted share rights 50% of which vest after one year and the remaining 50% after two years.

The terms of the DEP provide that, if a takeover bid is announced for all of the Shares and the bidder has acquired voting power of more than 50% in GrainCorp, any unvested GrainCorp Rights granted under the DEP will vest unless the GrainCorp Board determines that the circumstances warrant a different treatment (including, without limitation, whether equivalent awards are offered by the acquiring entity).

If ADM Australia acquires voting power of more than 50% in GrainCorp, the GrainCorp Board intends to vest all unvested GrainCorp Rights granted under the DEP in accordance with the terms of the DEP.

c. Long Term Incentive Plan (LTIP)

The LTIP is a long term incentive plan in which the Managing Director and Chief Executive Officer and other senior executives participate. Approval for the Managing Director and Chief Executive Officer's grant has been sought at GrainCorp's previous annual general meetings. Under this plan, participants are granted share rights which vest after 3 years, subject to satisfaction of certain vesting conditions relating to total shareholder return and return on equity over the performance period.

The terms of the LTIP provide that, if a takeover bid is announced for all of the Shares and the bidder has acquired voting power of more than 50% in GrainCorp, the GrainCorp Rights issued under the LTIP will be tested as to the extent to which the vesting conditions have been satisfied and any unvested rights will vest accordingly, without being prorated as to time. The GrainCorp Board may, in its discretion, determine that a different proportion of unvested rights may vest depending on all of the circumstances (including without limitation, whether equivalent awards are offered by the acquiring entity).

If ADM Australia acquires voting power of more than 50% in GrainCorp, the GrainCorp Board intends to vest unvested rights under the LTIP to the extent to which the vesting conditions have been satisfied as set out above and otherwise in accordance with the terms of the LTIP.

d. Retention Share Plan (RSP)

The RSP is a legacy share plan, under which Shares are held by the trustee of the GrainCorp Employee Share Plan Trust on behalf of participants subject to a 3 year restriction period on disposal. The restriction period for the final tranche of Shares held under this plan is due to end on 1 October 2013.

The RSP provides that, unless otherwise determined by the GrainCorp Board, if a person has the right:

- to vote 50% or more of the votes that can be cast on the election or removal of the GrainCorp Directors;
- to appoint or remove GrainCorp Directors who possess 50% or more of the votes exercisable by all GrainCorp Directors; or
- to 50% or more of the profits or distributions of GrainCorp or of its net liquidation proceeds,

the restriction period for all Shares held under the RSP will automatically end. If ADM Australia acquires any such right pursuant to the Offer, the GrainCorp Board intends to cause the transfer to participants of all Shares held under the RSP in accordance with the plan rules.

e. Cash awards

In October 2012, as a result of the takeover speculation and share price volatility that existed at the time, the GrainCorp Board made deferred cash awards rather than granting further GrainCorp Rights under the DEP and LTIP. These deferred cash awards were made subject to the same timing, vesting and performance conditions as rights under the DEP and LTIP (including on a change of control) except that, in the event of a change in control under the LTIP, the GrainCorp Board intends to pro-rate the LTIP portion of the deferred cash award subject to both the extent to which performance conditions have been satisfied and the portion of the performance period that has expired at the time the change of control occurs. The aggregate amount of these cash payments will not exceed \$6,998,389¹⁸ and the amount paid to Alison Watkins, being the only GrainCorp Director who may be entitled to receive any part of such payments, will not exceed \$1,891,600.

Upon vesting of GrainCorp Rights issued under the DEP and LTIP in the circumstances described in Sections 6.4(b) and 6.4(c), the GrainCorp Board intends to vest these deferred cash awards on the same basis (other than as specified in the paragraph above).

f. Other payments

The GrainCorp Board has determined that employees who hold GrainCorp Rights should benefit from the Permitted Dividends and Earnings Dividend (if applicable) and associated franking credits which relate to the Shares which are the subject of their GrainCorp Rights. Accordingly, GrainCorp intends to make a cash payment to holders of GrainCorp Rights under the DEP and LTIP equal to the cash amount of any dividends paid by GrainCorp during the Offer Period (and, where considered appropriate, an amount in respect of some or all of the benefit of franking credits relating to those dividends) which the holders of GrainCorp Rights do not receive because their GrainCorp Rights have not vested prior to the payment of the dividends. It is intended that any such payments would be made from surplus cash held in the GrainCorp Employee Share Plan Trust and that such payments would only be made following a change of control of GrainCorp occurring under the relevant plan as outlined above.

18. Calculated by reference to applicable foreign exchange rates as at 13 April 2013.

6.5 GRAINCORP DIRECTORS' INTERESTS IN SHARES AND GRAINCORP RIGHTS

The table below sets out the number of Shares in which each GrainCorp Director has a relevant interest as at the date of this Target's Statement.

GrainCorp Director	Number of Shares
Don Taylor	34,859
Alison Watkins	114,361 ¹⁹
David Trebeck	70,637
Simon Tregoning	14,465
Peter Housden	8,083
Barbara Gibson	Nil
Donald McGauchie	88,957
Daniel Mangelsdorf	15,528

No GrainCorp Director holds any GrainCorp Rights as at the date of this Target's Statement except for Alison Watkins who holds 330,859 GrainCorp Rights.¹⁹

6.6 DEALINGS IN SHARES

There have been no acquisitions or disposals of Shares by any GrainCorp Director in the four months ending on the date of this Target's Statement.

6.7 BENEFITS AND AGREEMENTS

a. Directorships

As at the date of this Target's Statement, no GrainCorp Director is a director of ADM or ADM Australia.

b. Benefits in connection with retirement from office

As described in section 12 of the "Directors' Report - Remuneration Report" included in GrainCorp's 2012 annual report, the GrainCorp Board resolved in December 2003 to cease any further contributions to non-executive GrainCorp Director retirement benefits other than statutory entitlements. The benefit accrued by Don Taylor prior to 16 December 2003 has been preserved at the accrued level and will be paid on his retirement in cash and not indexed from the cessation date. No other person, as a result of the Offer, has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of a GrainCorp Group member.

c. Agreements connected with or conditional on the Offer

Other than in their capacity as a holder of Shares or as otherwise disclosed in this Target's Statement, there are no agreements made between any GrainCorp Director and any other person in connection with, or conditional upon, the outcome of the Offer.

d. Benefits from the Offer

Other than as disclosed in this Target's Statement, no GrainCorp Director has agreed to receive, or is entitled to receive, any benefit from ADM or ADM Australia which is conditional on, or is related to, the Offer, other than in their capacity as a holder of Shares.

6.8 CHANGE OF CONTROL EVENTS

a. Allied Mills Joint Venture

GrainCorp holds a 60% interest in Allied Mills, an incorporated joint venture with Cargill. Cargill holds all other shares in Allied Mills and the parties have equal decision making rights with respect to the conduct of Allied Mills' business and operations.

19. This includes 16,080 Shares which are held by the trustee of the GrainCorp Employee Share Plan Trust on behalf of Alison Watkins under the terms of the RSP. These are held by the trustee of the GrainCorp Employee Share Plan Trust pending the expiry of the applicable restriction period on disposal.

The Allied Mills joint venture agreement contains a change of control provision that will be triggered if ADM Australia acquires control of GrainCorp. A change of control will be deemed to have occurred if ADM Australia acquires a relevant interest in more than 50% of the Shares and the Offer becomes unconditional.

On a change of control in GrainCorp, Cargill may give written notice requiring GrainCorp to sell to Cargill all of the shares which GrainCorp holds in Allied Mills. This notice may be given within 60 days of the change of control taking place. If a notice is given, GrainCorp and Cargill must attempt to reach agreement on a price for the relevant shares. If the parties are unable to agree on a price within a specified period, an independent valuation procedure must be followed, the result of which is conclusive and binding and will constitute the price for the relevant shares in Allied Mills.

GrainCorp is not aware of whether Cargill intends to exercise its rights if a change of control occurs.

b. Financing arrangements

A change of control in GrainCorp, which will be deemed to have occurred if ADM Australia acquires a relevant interest in more than 50% of the Shares and the Offer becomes unconditional, would constitute a review event under the principal contract which governs GrainCorp's various finance facilities. As a consequence, a change of control would mean the relevant lenders are entitled to give notice of a review event and then GrainCorp must for a period of at least 30 days after the date of notification meet and consult in good faith with the relevant lenders with a view to establishing the impact of the change of control event in respect of the relevant finance facilities and establishing a remedial action plan to the relevant lenders' satisfaction (which could involve the imposition of additional obligations on GrainCorp).

If the lenders determine that the review event or the remedial action plan is not acceptable, the relevant lenders may cancel all or part of the amount owing under the relevant finance facilities with effect 60 days from the date of notice and the relevant GrainCorp Group borrowers must repay all amounts owing within that time. As such, the change of control could ultimately lead to a requirement for GrainCorp to repay the finance facilities on 60 days' notice, but this is not automatic upon the change of control occurring.

As at 31 March 2013, the amount outstanding under GrainCorp's finance facilities was \$1.1 billion.

c. Leases

The leases governing certain properties occupied by the GrainCorp Group contain change of control clauses that will be triggered if ADM Australia acquires a relevant interest in more than 50% of the Shares and the Offer becomes unconditional. These clauses require GrainCorp to obtain the prior written consent of the relevant lessors to the change of control and entitle the relevant lessors to require ADM Australia and GrainCorp to satisfy certain pre conditions before granting consent. Failure to obtain consent may give the relevant lessor the right to terminate the lease. No such lease is material in the context of the GrainCorp Group taken as a whole and GrainCorp is not aware of whether the lessors of those specific premises would exercise those rights if they became entitled to do so.

d. Other material contracts

As far as the GrainCorp Directors are aware, no other agreement which is material in the context of the GrainCorp Group taken as a whole contains a change of control clause which may be triggered if ADM Australia is successful in acquiring control of GrainCorp and which may result in:

- that agreement being terminated; or
- the business of GrainCorp otherwise being materially adversely affected.

6.9 COMPULSORY ACQUISITION

a. Compulsory acquisition in connection with the Offer

ADM Australia has stated in section 9.3(a) of the Bidder's Statement that if it becomes entitled to do so under the Corporations Act, it intends to give notices to compulsorily acquire any outstanding Shares in accordance with Part 6A.1 of the Corporations Act.

ADM Australia will be entitled to compulsorily acquire any Shares in respect of which it has not received an acceptance of the Offer on the same terms as the Offer if, during or at the end of the Offer Period, ADM Australia (together with its associates) has a relevant interest in at least 90% (by number) of Shares and ADM Australia and its associates have acquired at least 75% (by number) of the Shares that ADM Australia offered to acquire under the Offer.

If these thresholds are met, ADM Australia will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Shareholder to establish to the satisfaction of a Court that the consideration offered does not represent "fair value" for their Shares.

Shareholders who have their Shares compulsorily acquired will be paid their consideration later than Shareholders who accept the Offer.

b. General compulsory acquisition

If, following closure of the Offer Period, ADM Australia becomes the holder of full beneficial interests in at least 90% (by number) of the Shares (for example, by subsequent acquisitions of Shares), it will be entitled to compulsorily acquire any outstanding Shares in accordance with Part 6A.2 of the Corporations Act.

6.10 CONTINUOUS DISCLOSURE

GrainCorp is a disclosing entity and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules.

Copies of documents filed with ASX by GrainCorp may be obtained from the ASX website at www.asx.com.au or from the GrainCorp website at www.graincorp.com.au. Copies of documents lodged with ASIC in relation to GrainCorp may also be obtained from, or inspected at, an ASIC office.

6.11 CONSENTS

The following persons have given, and have not withdrawn before the date of this Target's Statement, their consent to be named in this Target's Statement in the form and context in which they are so named:

- Credit Suisse as a financial adviser;
- Greenhill Australia as a financial adviser;
- Gilbert + Tobin as legal adviser;
- KPMG as tax adviser; and
- Link Market Services Limited as share registry.

Each of the above persons:

- does not make, or purport to make, any statement in this Target's Statement; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement.

Grant Samuel consents to be named as Independent Expert, and to the inclusion of its Independent Expert's Report as Attachment A of this Target's Statement, as well as statements extracted from or said to be based on statements made in the Independent Expert's Report.

As permitted by ASIC Class Order 01/1543, this Target's Statement contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to ASX. Pursuant to the Class Order, the consent of ADM and ADM Australia is not required for, and those persons have not consented to, the inclusion of such statements in this Target's Statement. Shareholders may, during the Offer Period, obtain a copy of those documents (free of charge) by contacting the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) at any time between 8.30am and 5.30pm (Sydney time) on Monday to Friday.

As permitted by ASIC class order 03/635, this Target's Statement may include or be accompanied by statements fairly representing a statement by an official person, or statements from a public official document or a published book, journal or comparable publication.

As permitted by ASIC Class Order 07/429, this Target's Statement contains share price data sourced from IRESS without its consent.

6.12 NO OTHER MATERIAL INFORMATION

This Target's Statement is required to include all information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find the information in this Target's Statement; and
- only if the information is known to any of the GrainCorp Directors.

The GrainCorp Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer is the information contained in:

- the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- GrainCorp's annual reports and releases to ASX before the date of this Target's Statement;
- documents lodged by GrainCorp with ASIC before the date of this Target's Statement; and
- this Target's Statement.

The GrainCorp Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate. However, the GrainCorp Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

7. GLOSSARY AND INTERPRETATION



GLOSSARY

The following defined terms in this Target's Statement have the meanings set out below.

Term	Meaning
Acceptance Form	the acceptance form enclosed with the Bidder's Statement.
ADM	Archer Daniels Midland Company.
ADM Australia	ADM Australia Holdings II Pty Limited (ABN 31 158 556 686) (a wholly owned subsidiary of ADM).
ADM Payment	the price offered by ADM Australia for Shares under the Offer, being \$12.20 cash for each Share.
Allied Mills	Allied Mills Australia Pty Limited (ABN 61 101 262 588).
ASIC	the Australian Securities & Investments Commission.
Associate	has the meaning it has in section 12 of the Corporations Act as if subsection (1) of that section included a reference to the Bid Implementation Deed.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as the "Australian Securities Exchange" operated by that entity.
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532).
ASX Settlement Operating Rules	the operating rules of ASX Settlement.
Bid Implementation Deed	the takeover bid implementation deed dated 25 April 2013 between ADM and GrainCorp.
Bidder's Statement	the bidder's statement of ADM Australia in relation to the Offer dated 24 June 2013.
Business Day	a day on which retail banks are open for general business in each of Sydney, Australia and Illinois, USA, and excludes a Saturday, Sunday or public holiday in either of these places.
Cargill	Cargill Australia Limited (ABN 42 004 684 173).
Cash Payments	the cash payments of \$13.20 per Share payable in connection with the Offer, comprising the ADM Payment of \$12.20 per Share and Permitted Dividends totalling \$1.00 per Share.
CGT	capital gains tax.
Change of Control Condition	the Condition in section 12.8(i) of the Bidder's Statement.
CHESS	has the meaning given in the Listing Rules.
CHESS Holding	a holding of Shares on the CHESS Subregister of GrainCorp.
CHESS Subregister	has the meaning given in the ASX Settlement Operating Rules.
Competing Proposal	any expression of interest, proposal, offer or transaction which, if entered into or completed in accordance with its terms, would result in a Third Party: a. acquiring a relevant interest or such other legal or economic interest in 20% or more of the Shares; b. acquiring control of or merging with GrainCorp; or c. acquiring, becoming the holder of or having a right to acquire or to acquire an economic interest in all or a substantial part (including through a joint venture or similar arrangement) of the business of the GrainCorp Group.
Conditions	the conditions of the Offer set out in section 12.8 of the Bidder's Statement.
Controlling Participant	has the meaning given in the ASX Settlement Operating Rules.
Corporations Act	the <i>Corporations Act 2001</i> (Cth) and any regulations made under that Act.
Credit Suisse	Credit Suisse (Australia) Limited (ABN 94 007 016 300).
DEP	has the meaning given in Section 6.4(b).
Earnings Dividend	a dividend of the kind described in Section 3.17.

Term	Meaning
Earnings Dividend End Date	the earliest of: a. the earliest date on which all of the Regulatory Conditions have been satisfied or waived; b. the date on which ADM terminates the Bid Implementation Deed as a result of any of the GrainCorp Directors publicly withdrawing or changing their recommendation of the Offer or publicly recommending a Competing Proposal; and c. the date on which a majority of the GrainCorp Directors publicly withdraw or change their recommendation of the Offer or publicly recommend a Competing Proposal.
EBITDA	earnings before interest, taxation, depreciation and amortisation.
FIRB	the Foreign Investment Review Board.
FIRB Condition	the Condition in section 12.8(a) of the Bidder's Statement.
FY12	the financial year ending 30 September 2012.
FY13	the financial year ending 30 September 2013.
FY14	the financial year ending 30 September 2014.
GrainCorp	GrainCorp Limited (ABN 60 057 186 035).
GrainCorp Board	the board of directors of GrainCorp.
GrainCorp Directors	the directors of GrainCorp.
GrainCorp Employee Share Plan Trust	the trust established by the GrainCorp Share Ownership Trust Deed dated 7 April 2009.
GrainCorp Group	GrainCorp and its subsidiaries.
GrainCorp Malt	the business division of GrainCorp that provides a range of malt products and services to brewers and distillers around the world.
GrainCorp Marketing	the business division of GrainCorp that provides various grain marketing services.
GrainCorp Rights	rights to be issued or transferred Shares as described in Section 6.4.
GrainCorp Shareholder Information Line	the information line established by GrainCorp to answer questions from Shareholders about the Offer.
Grant Samuel	Grant Samuel & Associates Pty Limited (ABN 28 050 036 372).
Greenhill Australia	Greenhill & Co. Australia Pty Limited (ABN 89 086 678 346).
Independent Expert	Grant Samuel.
Independent Expert's Report	the report of the Independent Expert included in this Target's Statement as Attachment A.
KPMG	an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.
Listing Rules	the official listing rules of ASX as amended or varied from time to time.
LTIP	has the meaning given in Section 6.4(c).
Minimum Acceptance Condition	the condition in section 12.8(c) of the Bidder's Statement.
Notice of Status of Conditions	ADM Australia's notice disclosing the status of the Conditions which is required to be given by section 630(3) of the Corporations Act.
NPAT	net profit after tax.
NYSE	has the meaning given in Section 3.7.
NY time	the local time in New York City, NY, United States.

Term	Meaning
Offer	the offer for Shares under the terms and conditions contained in section 12 of the Bidder's Statement and Offers means all such offers.
Offer Period	the period during which the Offer will remain open for acceptance in accordance with section 12.2 of the Bidder's Statement.
Permitted Dividends	one or more dividends which are declared or determined by the GrainCorp Board after 26 April 2013 totalling \$1.00 per Share (excluding the Earnings Dividend).
Regulatory Conditions	the Conditions in sections 12.8(a), 12.8(b) and 12.8(g) of the Bidder's Statement.
RSP	has the meaning given in Section 6.4(d).
Section	a section of this Target's Statement.
Shareholder	a holder of one or more Shares.
Share	a fully paid ordinary share in the capital of GrainCorp.
Superior Proposal	a bona fide, written Competing Proposal (with the percentage specified in the definition of that term changed from 20% to 50%) which the GrainCorp Board considers, acting in good faith and after taking advice from GrainCorp's legal and financial advisers, would, if implemented in accordance with its terms, result in a more favourable outcome for Shareholders than would result from implementation of the Transaction.
Sydney time	the local time in Sydney, New South Wales, Australia.
Takeover Bid	the off market takeover bid constituted by the dispatch of the Offers to Shareholders in accordance with the Corporations Act.
Target's Statement	this document and includes Attachment A.
Third Party	a person other than ADM or an Associate of ADM.
Transaction	the acquisition by ADM (acting through ADM Australia) of all of the Shares which ADM Australia does not already own under the Offer.

INTERPRETATION

- a. Words and phrases to which a meaning is given by the Corporations Act or the Listing Rules have that meaning in this Target's Statement unless that meaning is inconsistent with the context in which the word or phrase is used.
- b. Headings are for convenience only and do not affect the interpretation of this Target's Statement.
- c. The singular includes the plural and vice versa and words importing any gender include the other gender, and references to persons include corporations, other bodies corporate, unincorporated bodies, partnership, joint ventures or associations.
- d. Where a term is defined, its other grammatical forms have a corresponding meaning.
- e. References to time are references to the time in Sydney, Australia on the relevant date, unless stated otherwise.
- f. A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them.
- g. "\$" or "A\$" or "AUD" is a reference to the lawful currency of Australia.

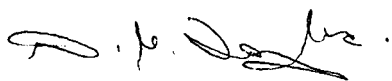
8. APPROVAL OF THIS TARGET'S STATEMENT



APPROVAL OF THIS TARGET'S STATEMENT

This Target's Statement has been approved by a resolution passed by the GrainCorp Directors.

Signed for and on behalf of GrainCorp Limited:

A handwritten signature in black ink, appearing to read 'Don C Taylor', with a stylized flourish at the end.

Don C Taylor
Chairman

24 June 2013

ATTACHMENT A – INDEPENDENT EXPERT'S REPORT



GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

24 June 2013

The Directors
GrainCorp Limited
Level 26
175 Liverpool Street
Sydney NSW 2000

Dear Directors

Offer by Archer Daniels Midland Company

1 Introduction

On 26 April 2013, GrainCorp Limited ("GrainCorp") announced that it had entered into a takeover bid implementation deed ("Implementation Deed") with Archer Daniels Midland Company ("ADM") under which, subject to the satisfactory completion of limited due diligence, a wholly owned subsidiary of ADM, ADM Australia Holdings II Pty Limited ("ADM Australia") would make a conditional off-market takeover offer ("ADM Offer") for all of the shares in GrainCorp that ADM Australia does not already own (ADM Australia has a 19.85%¹ relevant interest in GrainCorp shares.) The ADM Offer follows two previous proposals by ADM (in October and December 2012) both of which were rejected by GrainCorp. On 2 May 2013, ADM announced that it had satisfactorily completed its due diligence and would proceed to make the ADM Offer.

ADM is listed on the New York Stock Exchange and Frankfurt Stock Exchange. It converts oilseeds, corn, wheat and cocoa and other agricultural commodities into products for human consumption, animal feed and industrial and energy uses. It is headquartered in Decatur, Illinois in the United States of America and sells to customers in more than 140 countries. ADM has a market capitalisation of approximately US\$22 billion (as of 20 June 2013).

Under the ADM Offer, shareholders will receive total cash payments of \$13.20 per share comprising an offer price of \$12.20 cash per share from ADM Australia and dividends paid by GrainCorp totalling \$1.00 per share (such dividends being expected to be fully franked). The offer price will be reduced by an amount equal to any other dividends paid by GrainCorp other than the earnings dividend referred to below.

The ADM Offer is subject to a number of conditions which are set out in full in the Bidder's Statement issued by ADM Australia. In summary, the key conditions are:

- ADM Australia obtains a relevant interest in at least 50.1% (inclusive of ADM's current 19.85% relevant interest) of all GrainCorp shares (on a fully diluted basis); and
- approvals from certain foreign competition authorities are obtained and no objection from the Foreign Investment Review Board and the Australian Competition and Consumer Commission.

The regulatory conditions may take several months and possibly longer to satisfy. Accordingly, ADM has agreed that if the regulatory conditions are not achieved by 1 October 2013 then, subject to GrainCorp being profitable in the period, shareholders will receive an additional earnings dividend (expected to be fully franked) equal to 3.5 cents for each full month from 30 September 2013 until the earliest of the date that the regulatory conditions have been satisfied or waived, or the date ADM terminates the Implementation Deed as a result of any of the GrainCorp directors withdrawing or changing their recommendation, or the date on which the majority of GrainCorp directors withdraw or change their recommendation.

Although there is no requirement for an independent expert's report, the directors of GrainCorp have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's

¹ Based on 228,855,628 shares on issue.



report setting out whether, in its opinion, the ADM Offer is fair and reasonable and to state the reasons for that opinion. A copy of the report is to accompany the Target's Statement to be despatched to shareholders by GrainCorp. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Summary of Opinion

In Grant Samuel's opinion, the ADM Offer is fair and reasonable, in the absence of a superior proposal.

The full underlying value of GrainCorp, including a control premium, is estimated to be in the range \$12.74-13.97 per share. The value range takes into account:

- the strategic value of GrainCorp's grain handling network (including port terminals) which provides the opportunity to acquire control over an "end to end" network that handles around 75% of eastern Australian grain production and includes seven of the eight major grain export terminals in eastern Australia; and
- the value inherent in GrainCorp's significant portfolio of initiatives being implemented over the next four years (expected to generate additional EBITDA² of approximately \$110 million). The enhanced value from some of these projects has been included on a risk adjusted basis, where they represent step changes in the business outside the ordinary course.

Each of GrainCorp's business units has been valued separately, reflecting their individual circumstances and outlooks. In the case of the Storage & Logistics business unit and, to a lesser extent, the GrainCorp Marketing business unit, earnings can fluctuate materially from year to year depending on seasonal conditions and other factors. For these business units, greater emphasis was placed on estimates of normalised earnings reflecting typical or average crop levels. The appropriate multiples of normalised earnings for the businesses reflect a number of factors including capital intensity, growth outlook and competitive environment (barriers to entry):

- the value of Storage & Logistics represents 9.5-10.1 times normalised EBITDA and 14.2-15.0 times normalised EBIT³; and
- the value of GrainCorp Marketing represents 8.3-9.1 times normalised PBTDA³ and 8.4-9.2 times normalised PBT³. The value of GrainCorp Marketing is net of debt associated with inventory funding.

The value of the GrainCorp Malt business unit represents multiples of 8.4-8.9 times the midpoint of management guidance for EBITDA for the year ending 30 September 2013 ("FY13")⁴.

The value of GrainCorp Oils is based primarily on the acquisition price paid by GrainCorp in late 2012 in an arm's length transaction. Account has also been taken of performance in the six months to 31 March 2013 and the potential synergies from the transaction.

As GrainCorp operates an integrated "end to end" business focussed on three dry climate grains, it is also appropriate to consider it as a single business. The overall Enterprise Value (excluding Allied Mills) represents multiples of 9.1-9.8 times normalised EBITDA⁵ and 12.9-14.0 times normalised EBIT⁵.

As the ADM Offer of \$13.20 cash per share is above the bottom end of Grant Samuel's value range, the ADM Offer is "fair". A fair offer is definitionally also "reasonable". In any event, GrainCorp shareholders should take the following factors into account:

² EBITDA is earnings before net interest, tax, depreciation and amortisation, investment and other income and significant and non-recurring items. EBIT is earnings before net interest, tax, amortisation of acquired intangible assets, investment and other income and significant and non-recurring items.

³ PBTDA is profit before tax, depreciation and amortisation (i.e. EBITDA less interest associated with inventory funding). PBT is profit before tax (i.e. EBIT less interest associated with inventory funding) (refer Section 6.3 of the detailed report for explanation).

⁴ FY = financial year ended/ending 30 September 20XX.

⁵ See footnotes 20 and 25 for calculation of normalised EBITDA and EBIT for GrainCorp. In particular, interest on GrainCorp Marketing inventory funding is deducted in determining EBITDA and EBIT and amortisation of acquired intangible assets is excluded.

GRANT SAMUEL



- the very substantial premium that the ADM Offer provides over the share price prevailing at the time of the initial proposal in October 2012 (circa 50%);
- in the absence of any takeover offer (or speculation), it is likely that GrainCorp shares would trade at levels well below \$13.20;
- while there is no impediment to a higher offer from an alternative acquirer, no such proposal has emerged in the eight months since ADM's first approach; and
- the franking credits attached to the \$1.00 dividend component of the ADM Offer may create additional value for some shareholders (compared to a capital gain).

3 Key Conclusions

- GrainCorp has been valued in the range \$12.74 to \$13.97 per share

GrainCorp has been valued in the range \$2,917-3,199 million which corresponds to a value of \$12.74-13.97 per share. The valuation represents the estimated full underlying value of GrainCorp assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect GrainCorp shares to trade on the ASX in the absence of a takeover offer (or takeover speculation).

The value for GrainCorp is the aggregate of the estimated market value of GrainCorp's operating business units together with other non-trading assets and liabilities less external borrowings. The valuation is summarised below:

GrainCorp - Valuation Summary (\$ millions)			
	Full Report Section Reference	Value Range	
		Low	High
Business Units			
Storage & Logistics	6.6.1	1,600.0	1,700.0
GrainCorp Marketing (net of inventory funding)	6.6.2	250.0	275.0
GrainCorp Malt	6.6.3	850.0	900.0
GrainCorp Oils	6.6.4	472.0	472.0
Business development initiatives	6.7	150.0	200.0
Corporate overheads	6.8	(225.0)	(200.0)
Enterprise value		3,097.0	3,347.0
Allied Mills (60% interest)	6.10	160.2	187.2
Other assets and liabilities	6.11	(10.1)	(5.6)
Net borrowings (adjusted)	6.12	(330.0)	(330.0)
Value of equity		2,917.1	3,198.6
Fully diluted shares on issue (millions)	6.13	228.9 ⁶	
Value per share		\$12.74	\$13.97

The value attributed to each of GrainCorp's business units is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA, EBIT and NPAT⁷) and discounted cash flow ("DCF") analysis. The nature of GrainCorp's business means that earnings in business units such as Storage & Logistics can fluctuate materially from year to year depending on seasonal and climatic conditions and their impact on the volumes of the various crops the business units handle. Similarly, the earnings of GrainCorp Marketing fluctuate (albeit to a lesser extent) depending on market conditions and other factors. Accordingly, for these businesses, greater emphasis was placed on multiples of estimates of normalised earnings reflecting typical or average crop levels rather than earnings in any one particular year.

⁶ Based on 228,855,628 shares on issue plus the shares that would need to be issued (47,253) assuming all performance share rights and restricted shares vest.

⁷ NPAT is net profit after tax.



While each business unit has been individually valued, GrainCorp operates an integrated “end to end” business (handling, processing, marketing) focussed on three dry climate grains (wheat, barley and canola). Accordingly, it is also appropriate to consider GrainCorp as a single business in which case overall multiples for the total business are also an important consideration in the valuation.

■ **The value range reflects GrainCorp’s strategic attractions and growth potential**

The value range of \$12.74 to \$13.97 takes into account:

- the strategic value of GrainCorp’s grain handling network (storage, rail and port facilities). Although Australia is not a major producer of grains by global standards (around 2%), it is a significant exporter (around 11% of international trade in wheat and coarse grains) with a reputation for quality. GrainCorp provides the opportunity for international grain companies to acquire control of an “end to end” network that handles around 75% of eastern Australian grain production as well as marketing around 30% of exports from eastern Australia. There are no other comparable acquisition opportunities, particularly following the acquisitions of ABB Grain Limited (“ABB”) by Viterro Inc (“Viterro”) (now Glencore International plc (“Glencore”)) and AWB Limited’s (“AWB”) commodity business by Cargill Inc (“Cargill”). The GrainCorp grain handling asset base is widely regarded as impossible to replicate and it has a very strategic position in port terminals (seven of the eight major grain export terminals in eastern Australia). In a rapidly consolidating global industry and with a number of substantial international grain companies without a major presence in Australia, there are clear strategic attractions for a successful acquirer; and
- the value inherent in GrainCorp’s portfolio of initiatives that are either underway or being implemented over the next four years. GrainCorp estimates that these initiatives will generate additional EBITDA of around \$110 million per annum (after incremental capital expenditure of \$270 million). Grant Samuel has separately allowed for the enhanced value that should accrue from some of these specific projects, on a risk adjusted basis, where these projects represent step changes in the business outside the ordinary course (i.e. they represent more than normal continuous business improvement). The remaining initiatives have generally not been directly valued but do serve to underpin expectations of future earnings growth and the multiples of current earnings.

■ **The primary focus for the valuation of Storage & Logistics and GrainCorp Marketing is earnings adjusted to reflect a normal seasonal crop and the characteristics of the business**

The earnings of several of GrainCorp’s business units, in particular Storage & Logistics and GrainCorp Marketing, are heavily dependent on the size of the annual eastern Australian grain harvest (primarily wheat). The harvest size can be volatile. This issue is clearly evident from GrainCorp’s performance over the past few years with severe droughts decimating the harvest in both 2006/07 and 2007/08. In contrast, the 2010/11 and 2011/12 harvests were at very high levels while the current year is close to normal.

The value of the business is therefore not so much a function of the level of earnings in any particular year but instead is more a function of the level of earnings that could be expected to be generated in a “normal” or “average” year (also referred to as “through the cycle” earnings). In forming its view on value, Grant Samuel has put more emphasis on multiples of “normalised” earnings than multiples of earnings in individual years.

In the case of Storage & Logistics, Grant Samuel has assumed:

- a normal eastern Australian grain harvest of 17-18 mtpa^{8,9}, a GrainCorp market share¹⁰ of 57-60% and total throughput of 19.1-21.5 mtpa¹¹; and
- EBITDA of \$8.00-8.50 per tonne of throughput.

⁸ mtpa = million tonnes per annum.

⁹ Wheat, barley, sorghum and canola.

¹⁰ Country receivals as a proportion of the eastern Australian grains production.

¹¹ Assumes constant grain carry-in and carry-out (3.0 mt), domestic outload (6.0 mtpa), port receivals (12% of production) and non-grain shipments (2.2 mtpa).

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The resultant EBITDA range is \$153-182 million with a midpoint of \$168 million (compared to \$195 million reported in FY11 and \$250 million reported in FY12). Normalised EBIT is estimated to be \$113 million.

A slightly different approach was adopted in relation to GrainCorp Marketing. While EBITDA or EBIT multiples are useful parameters for most of GrainCorp's business units this does not apply to GrainCorp Marketing. An inherent part of this business is acquiring, holding and financing grain stocks (using dedicated inventory financing facilities) for on sale to customers. The key issues are that:

- interest costs on holding inventory are recovered through the ultimate selling price of the grain. Accordingly, interest expense and trading profit are not independent variables; and
- inventory and debt levels fluctuate materially during the year depending on the seasonal cycle, tactical buying decisions and customer requirements. Debt at any particular point in time may be unrepresentative of average debt across the year.

Accordingly, standard "capitalisation of EBITDA less debt" approaches are likely to produce erroneous valuations. Grant Samuel has therefore:

- excluded commodity inventory financing debt from its calculation of net borrowings to deduct from GrainCorp's overall enterprise value. Net borrowings includes only "core" debt; and
- treated interest expense (related to commodity inventory financing for marketing activities) as part of cost of goods sold. The primary earnings parameters used for valuation of GrainCorp Marketing are therefore multiples of business unit PBTDA, PBT and NPAT.

This approach is more in line with valuation approaches used for financial institutions and trading businesses where interest is an integral part of the business rather than a separate capital structure decision.

The normalised PBTDA of GrainCorp Marketing is estimated to be in the range \$27.5-33.0 million, with a midpoint of \$30.3 million based on the following assumptions:

- sales volume of 5.5-6.0 mtpa; and
- PBTDA of \$5.00-5.50 per tonne.

However, it is important to recognise that these are high level estimates and relatively crude. In particular, it is difficult to determine a "normal" harvest with any degree of reliability given the extremes of weather that have been experienced over the past decade, changes in underlying weather patterns and the ongoing changes in area under crop and yields and the progressive impact of various cost savings initiatives is also difficult to isolate. Accordingly, such normalised analysis needs to be treated with a significant degree of caution. That said, this analysis still provides more useful valuation insight than reliance on any one particular year.

Regard has also been had to:

- implied multiples based on consensus broker forecasts, particularly for FY14 and later as such estimates will likely be based on assumptions as to more typical seasonal conditions and "carry in/carry out" levels; and
- multiples based on average earnings for the last four years (to 30 September 2012) although:
 - the four year average is not necessarily representative of a typical year; and
 - they reflect a business that has changed materially over the last four years following deregulation of Australian wheat exports in July 2008 (particularly GrainCorp Marketing).

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- **There are four key reference transactions which provide useful guidance as to the appropriate multiples for valuing GrainCorp and its constituent businesses in the context of a change of control transaction**

There have been a significant number of acquisitions in the agribusiness sector that may provide some guidance as to appropriate acquisition multiples for GrainCorp's business units. However, there are four transactions that stand out as being both recent and highly relevant to GrainCorp as they involve companies that compete directly with GrainCorp or are engaged in the same basic activities. They are:

- the acquisition by Viterra of ABB in 2009. ABB's business operations comprised grain handling including storage, rail and port operations (primarily in South Australia), grain marketing (initially concentrated on barley but expanded into wheat following deregulation in 2008), malt manufacturing (Joe White Maltings) and rural services. ABB's grain handling operations were approximately 50% of the size of GrainCorp;
- the acquisition by Cargill of AWB's commodity business in 2010. This transaction followed shortly after Agrium Inc. ("Agrium") made a successful takeover offer for AWB. Agrium retained AWB's rural services business (Landmark). AWB's commodity business operations comprised marketing of Australian grain, grain logistics, pool management services (including harvest finance) and the marketing and trading of grain internationally;
- the acquisition by Glencore of Viterra in 2012. In addition to ownership of ABB, Viterra's business operations comprised the handling and marketing of grains from western Canada, the manufacture, distribution and retailing of crop inputs in Canada (AgriProducts), oat milling and barley malting in North America and other businesses including livestock feed mills; and
- the acquisition by Marubeni Corporation ("Marubeni") of Gavilon Holdings LLC ("Gavilon") in 2012. Gavilon was the third largest grain handler in the United States with 140 grain facilities capable of storing 8.3 million tons. Gavilon was also a leading distributor of fertilizer and owned energy storage assets¹².

These transactions have been used as the primary reference point for appropriate multiples for the valuation of GrainCorp and its constituent businesses. However, analysis of these transactions is not straightforward for a number of reasons including:

- seasonal fluctuations in working capital and debt;
- general volatility in debt levels because of trading activities;
- seasonal variations in earnings; and
- the mix of businesses.

Grant Samuel has made a number of adjustments and assumptions in order to determine the underlying multiples of normalised earnings (EBITDA and EBIT) for these transactions (to the extent possible/practical) which are set out in detail in the full report (see Section 6.5.4). Based on these adjustments, the analysis shows the following key data points:

Key Comparable Transactions – Adjusted Implied Multiples				
Date	Target	Acquirer	EBITDA Multiple (times)	EBIT Multiple (times)
May 2009	ABB	Viterra	9.6-10.0	11.5-12.1
December 2010	AWB Commodities	Cargill	9.3	10.3
March 2012	Viterra	Glencore	9.0-9.9	12.4-14.1
May 2012	Gavilon	Marubeni	9.0	na

¹² In June 2013, Marubeni announced that it will not be acquiring the energy storage assets of Gavilon.

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In considering these transaction multiples, it should be noted that:

- ABB's business included a lower rated rural services business. Excluding this business, the multiples for the core business would be slightly higher;
- AWB's commodities business was predominantly grain marketing and it did not have a significant component of handling and/or storage infrastructure. Other things being equal, this would warrant lower multiples;
- the Viterra multiples are based on actual results to 31 October 2012, adjusted to:
 - reflect the sale of the AgriProducts business unit to Agrium;
 - allow for an allocation of corporate costs to the AgriProducts business unit (assumed to be C\$50 million) for the low end multiples; and
 - include C\$45 million of earnings benefits expected to arise from future (2014) deregulation of the Canadian wheat industry (mid point of Viterra estimate).

The multiples based on actual results to 31 October 2011 are approximately 0.5-1.0 times higher;

- the Gavilon multiples are based on Marubeni management comments as to debt and expected EBITDA as reported by broker analysts (and have not been adjusted for the change in the transaction announced in June 2013 due to lack of information); and
- none of the earnings figures incorporate synergy benefits available to the acquirer.

In Grant Samuel's opinion, these four transactions clearly indicate that underlying EBITDA multiples for control of integrated grain handling, marketing and processing businesses are in the order of 9-10 times normalised EBITDA (before synergies) and 12-14 times normalised EBIT (before synergies). Within this mix, higher multiples would be attributed to handling assets and lower multiples to marketing and processing businesses.

However, at the same time it should be noted that:

- the calculations of multiples for transactions is always subject to uncertainty because of the lack of access to internal data (particularly forecasts);
- the adjustments made by Grant Samuel are necessarily high level and also made without access to internal information; and
- the multiples relate to blended businesses and therefore may not necessarily be appropriate for individual components (e.g. Storage & Logistics or GrainCorp Marketing).

■ **The implied multiples for each GrainCorp business unit are considered to be reasonable compared to the reference transactions and other market evidence**

The two businesses that comprise GrainCorp Oils were only acquired in October 2012 so the acquisition cost is a reasonable basis for the value of these businesses. In any event, the multiples implied by the acquisition price were in line with market parameters and trading performance to 31 March 2013 is in line with GrainCorp's expectations at the time of acquisition. Grant Samuel has separately allowed for the value of synergies from these acquisitions that were uniquely available to GrainCorp (by acquiring both Gardner Smith and Integro Foods separately and integrating them) as part of the value of GrainCorp's business development initiatives.

The implied multiples for the other business units are summarised below:

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Implied Earnings Multiples						
	Storage & Logistics		GrainCorp Marketing		GrainCorp Malt	
	Low	High	Low	High	Low	High
Value Range (\$ millions)	1,600	1,700	250	275	850	900
<u>Multiple of EBITDA/PBTDA¹³ (times)</u>						
Normalised	9.5	10.1	8.3	9.1	8.4¹⁴	8.9¹⁴
FY12 (adjusted)	6.4	6.8	6.1	6.7	7.6	8.0
FY13 (broker consensus) ¹⁵	8.3	8.8	10.4 ¹⁶	10.9 ¹⁶	7.7	8.2
FY14 (broker consensus) ¹⁵	10.3	10.9	9.6 ¹⁶	10.0 ¹⁶	7.2	7.7
<u>Multiple of EBIT/PBT¹³ (times)</u>						
Normalised	14.2	15.0	8.4	9.2	11.4¹⁴	12.0¹⁴
FY12 (adjusted)	8.1	8.7	6.1	6.7	9.6	10.2
FY13 (broker consensus) ¹⁵	11.1	11.8	12.2 ¹⁶	12.7 ¹⁶	10.2 ¹⁷	10.8 ¹⁷
FY14 (broker consensus) ¹⁵	16.1	17.1	12.7 ¹⁶	13.2 ¹⁶	9.1 ¹⁷	9.6 ¹⁷

In Grant Samuel's opinion these multiples, in particular the multiples of pro forma normalised earnings, are reasonable relative to the reference transactions and other market evidence. The following key factors were taken into account in forming this view:

Storage & Logistics

- the "infrastructure" nature of the business;
- the strategic value of the business to international grain companies (or other trade buyers) given:
 - the substantial barriers to entry;
 - GrainCorp's high market share;
 - the importance of Australian grains in the global grain industry; and
 - the lack of alternative opportunities for potential acquirers;
- the enhanced strength of the business when in common ownership with a leading grain marketing business;
- the relative capital intensity. The multiple of normalised EBIT at 14.2-15.0 is relatively high and represents a constraint on value;
- the full effect of the business improvement initiatives that are planned to be implemented by GrainCorp will not be realised until FY16; and
- relative to the comparable transactions:
 - GrainCorp is a more strategically important business than ABB; and
 - the eastern Australian grain crop is more volatile than the Canadian crop but has exhibited higher growth over the past decade.

¹³ PBTDA and PBT for GrainCorp Marketing. EBITDA and EBIT for Storage & Logistics and GrainCorp Malt.

¹⁴ Based on the midpoint of management guidance for FY13 included in the half year results to 31 March 2013 (volume 1.3 mtpa, EBITDA of \$75-80 per tonne). Depreciation is assumed to be \$26 million.

¹⁵ See Appendix 1 to the full report for detailed compilation of broker consensus forecasts.

¹⁶ Brokers do not separately forecast interest expense relating to commodity interest funding. To calculate the multiples implied by broker consensus forecasts for GrainCorp Marketing, Grant Samuel has added an assumed average GrainCorp Marketing inventory related debt of \$300 million to the enterprise value of \$250-275 million. This has the effect of making the implied multiple higher than it would otherwise be on a post interest basis.

¹⁷ Broker consensus EBIT forecasts for GrainCorp Malt are after amortisation of acquired intangibles. For the purposes of the calculations of the multiples in the table, EBIT has been adjusted to add back \$12 million per annum for amortisation of acquired intangible assets.



GrainCorp Marketing

- EBIT (or PBT) is arguably a better measure of earnings than EBITDA (or PBTDA) as it captures the different levels of capital intensity (GrainCorp Marketing has minimal capital expenditure). The EBIT/PBT multiples for GrainCorp Marketing are substantially lower than for Storage & Logistics (by almost six “turns”) which reflects the much more competitive environment and the low barriers to entry for grain marketing;
- the business does undertake some “trading” activities. However:
 - the focus of the business is on long term relationships with, and matching the needs of, grain producers and customers; and
 - trading is concentrated on basis price risk with limited exposure to flat price risk;
- normalised PBTDA of \$30.3 million assumes margins of \$5.00-5.50 per tonne, well below the peak earnings of \$8.27 per tonne in FY11 (which did include non recurring gains); and
- GrainCorp’s initiatives for the marketing business are targeted to add incremental EBITDA of \$12 million per annum by FY16 (primarily from development of the international business following the opening of new offices in Hamburg (2011) and Calgary (2012)). No separate value has been included for these initiatives.

GrainCorp Malt

- declines in mainstream beer production in developed economies and the resultant reduced demand for malt are expected to be more than offset by:
 - growth in beer production in emerging markets (e.g. Asia);
 - continued growth in the whisky market; and
 - strong growth in the craft beer market.

GrainCorp Malt is well positioned in each of these market segments;

- GrainCorp Malt is well diversified across the key geographic markets in terms of production (North America, Europe, Australia) reducing its risk profile;
- Schill Malz (acquired 2011) incurred a loss in FY12 but is expected to turn around over the next 2-3 years;
- Margins from FY14 onwards should also benefit from efficiencies from the new malthouse in Vancouver, Washington and a co-located power station in Calgary. Any weakening of the A\$ and C\$ will assist the competitiveness (and/or margins) of exports from the Australian and Canadian units;
- GrainCorp’s gamechanger initiatives for the malt business are targeted to contribute incremental EBITDA of \$14 million by FY16 (at a capital cost of \$30 million);
- future capital expenditure requirements (stay-in-business) is expected to be less than 15% of EBITDA; and
- while the multiples of 7.6-8.0 times FY12 EBITDA and broadly 8.4-8.9 times forecast FY13 EBITDA are above the 6.7¹⁸ times historical EBITDA paid for the business in 2009, the earnings at that time were at cyclical peaks (and expected to decline). Multiples based on “normalised” earnings at the time would be closer to the multiples implicit in Grant Samuel’s valuation.

¹⁸ Based on United States dollar denominated acquisition price and EBITDA. This is higher than announced (5.7 times) which was based on an Australian dollar price converted at US\$:A\$0.865 and Australian dollar EBITDA based on US\$:A\$0.7472.



■ **A value of \$150-200 million has been attributed to specific initiatives or changes in the business outside of the ordinary course of business**

As the full extent of the business model has developed over the last five years, GrainCorp has begun to implement a program of business and performance improvement initiatives. In total, the portfolio of initiatives is targeting incremental EBITDA of approximately \$110 million by the end of FY16 with associated capital costs of approximately \$270 million (of which \$20 million was spent in FY12).

In general, these initiatives have not been specifically included in the valuation of the individual business units¹⁹, largely because these kinds of continuous business improvements are present in every business and it is not possible to determine to what extent similar kinds of improvements were inherent in the target companies involved in the comparable transactions and therefore reflected in the purchase prices and multiples.

However, Grant Samuel has attributed a separate value where these projects or changes represent step changes in the business outside the ordinary course. Specifically, Grant Samuel has attributed value to:

- the regulatory changes to port access for Storage & Logistics which will enable it to contract with larger grain marketers for committed port capacity for periods of up to three years (estimated EBITDA impact of \$20 million per annum by FY16);
- synergies from the acquisition and integration of Gardner Smith Group and Integro Foods (estimated by GrainCorp to be \$7 million per annum). These businesses have been separately valued at acquisition cost; and
- the expansion of oil crushing capacity and the development of refining capability at Numurkah, with targeted EBITDA benefits of \$18 million and capital expenditure of \$90-100 million.

Assessing the current value of these kinds of initiatives is always difficult:

- there is inevitably considerable execution risk and it is appropriate to materially discount the potential benefits to reflect that risk; and
- given the uncertainties it is not practical to undertake detailed analysis (e.g. DCF analysis). Such analysis would give a misleading impression of precision. It is necessarily a high level judgement.

Grant Samuel has attributed a value range of \$150-200 million to these initiatives which approximates 50-70% of the value of the net benefits.

■ **The overall valuation multiples are reasonable relative to the reference transactions**

While the value has been calculated by aggregating the value of GrainCorp's operating business units:

- GrainCorp operates an integrated business within a fairly narrow set of activities. It operates across three core crops (wheat, barley and canola), which are to some extent substitutable (for farmers and customers and in handling), and the three components of the business (handling, processing and marketing) can be seen simply as elements within an integrated "end to end" value chain for each product. In other words, it can be viewed as a single business; and
- the primary reference point for valuation is the earnings multiples observed in recent acquisitions of other companies operating in the grains (and related industries). Generally, these companies operated across various products and multiple parts of the value chain (including processing). The multiples therefore represent "blended" multiples rather than multiples for individual businesses (such as, say, marketing or storage and logistics). There are few, if any, transactions involving businesses that operate in just one part of the grain industry.

¹⁹ Some of the "gamechanger" benefits are incorporated in the normalised earnings for Storage & Logistics.

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Accordingly, the overall multiples implied by the aggregate valuation are also important in considering and assessing the value of GrainCorp. These are summarised below:

GrainCorp – Overall Implied Multiples			
	Variable (\$ million / \$)	Value Range	
		Low	High
Value Range (\$ million)		3,097	3,347
<u>Multiple of EBITDA (times)</u>			
Normalised	340.2²⁰	9.1	9.8
FY12 (adjusted pro forma)	440.6 ²¹	7.0	7.6
Average for four years ended FY12	360.7 ²²	8.6	9.3
FY13 (broker consensus)	392.2 ²³	8.9 ²⁴	9.5 ²⁴
FY14 (broker consensus)	374.0 ²³	9.3 ²⁴	10.0 ²⁴
FY15 (broker consensus)	383.7 ²³	9.1 ²⁴	9.7 ²⁴
<u>Multiple of EBIT (times)</u>			
Normalised	239.2²⁵	12.9	14.0
FY12 (adjusted pro forma)	342.0 ²⁶	9.1	9.8
Average for four years ended FY12	276.4 ²⁷	11.2	12.1
FY13 (broker consensus)	292.6 ²⁸	11.9 ²⁴	12.7 ²⁴
FY14 (broker consensus)	273.4 ²⁸	12.7 ²⁴	13.6 ²⁴
FY15 (broker consensus)	276.0 ²⁸	12.6 ²⁴	13.5 ²⁴
<u>Price earnings multiple²⁹ (times)</u>			
FY12 (as reported)	\$1.03	12.4	13.6
FY13 (broker consensus) (before significant items)	\$0.77	16.6	18.1
FY14 (broker consensus)	\$0.69	18.5	20.3
FY15 (broker consensus)	\$0.72	17.8	19.5

²⁰ Normalised earnings based on Grant Samuel EBITDA estimate for Storage & Logistics (\$168 million) and PBTDA estimate for GrainCorp Marketing (\$30.3 million), midpoint management guidance for FY13 for GrainCorp Malt ((\$100.8 million) and double half year results for GrainCorp Oils (\$66 million). Corporate overheads are assumed to be \$25 million and have not been reduced to reflect the savings an acquirer should be able to achieve. Therefore, normalised EBITDA is after interest expense relating to commodity inventory funding. Refer Section 6.9 of the full report for the source of earnings.

²¹ Calculated as adjusted FY12 EBITDA for GrainCorp (\$398.9 million) less interest expense for commodity inventory funding for 2012 (\$21.9 million) plus pro forma FY12 EBITDA for GrainCorp Oils (\$63.6 million). Refer Section 6.9 of the full report for the source of earnings.

²² Aggregate of average adjusted/pro forma EBITDA (after interest expense for commodity inventory funding) for four years ended 30 September 2012 for each GrainCorp operating business unit and average of four years corporate overheads (EBITDA). Refer Section 6.9 of the full report for the source of earnings.

²³ Broker consensus EBITDA forecasts for GrainCorp are before interest expense relating to commodity inventory funding (i.e. consistent with reported EBITDA).

²⁴ As brokers do not forecast interest expense for commodity inventory funding, Grant Samuel has calculated the multiples implied by these forecasts by adding average funding for commodity inventories (GrainCorp Marketing and GrainCorp Oils) of \$380 million to the enterprise value of \$3,097-3,347 million.

²⁵ Normalised earnings based on Grant Samuel EBIT estimate for Storage & Logistics (\$113 million) and PBT estimate for GrainCorp Marketing (\$29.9 million), midpoint management guidance for FY13 for GrainCorp Malt (\$100.8 million less assumed depreciation of \$26 million) and double the half year to 31 March 2013 for GrainCorp Oils (\$47.6 million). Corporate overheads are assumed to be \$26 million (including depreciation) and have not been reduced to reflect the savings an acquirer should be able to achieve. Therefore, normalised EBIT is after interest expense relating to commodity inventory funding but before amortisation of acquired intangibles. Refer Section 6.9 of the full report for the source of earnings.

²⁶ Calculated as adjusted FY12 EBIT for GrainCorp (\$320.4 million) less interest expense for commodity inventory funding for 2012 (\$21.9 million) plus pro forma FY12 EBIT for GrainCorp Oils (\$43.5 million). Refer Section 6.9 of the full report for the source of earnings.

²⁷ Aggregate of average adjusted/pro forma EBIT (i.e. after interest expense for commodity inventory funding) for four years ended 30 September 2012 for each GrainCorp operating business unit and average of four years corporate overheads (EBIT). Refer Section 6.9 of the full report for the source of earnings.

²⁸ Broker consensus EBIT forecasts for GrainCorp are before interest expense relating to commodity inventory funding (i.e. consistent with reported EBIT) and after amortisation of acquired intangibles. For the purposes of the calculations in the table, consensus EBIT has been adjusted to add back \$12 million per annum of amortisation of acquired intangibles.

²⁹ Calculated as Grant Samuel equity value per share divided by earnings per share (actual or broker consensus forecasts).

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In Grant Samuel's opinion these multiples, in particular the multiple of 9.1-9.8 times pro forma normalised EBITDA, are reasonable relative to the market evidence. The following factors were taken into account in forming Grant Samuel's view on value:

- the overall EBITDA multiples for GrainCorp are entirely consistent with the four key reference transactions which indicates a range of 9-10 times EBITDA. While GrainCorp is a diversified business with some individual operations that would warrant lower multiples each of the comparables also had a diversified base of activities (although grain handling was the primary activity in all cases);
- the implied normalised EBITDA multiple increases to 9.8-10.5 times if EBITDA is calculated in the conventional manner before interest expense on commodity inventory funding (with a corresponding adjustment to net borrowings); and
- multiples at least in line with the comparable transaction are appropriate having regard to:
 - GrainCorp's strategic attractions (in particular its market position in eastern Australian grain handling and its port and other infrastructure assets);
 - the scale of the upside potential from the portfolio of initiatives (including both the ones separately valued and those not). Expected incremental EBITDA of \$110 million is equivalent to more than 30% of GrainCorp's normalised EBITDA; and
 - the integrated nature of the business that has emerged over the past three years.

■ GrainCorp's 60% interest in Allied Mills has been valued at \$160-187 million

The business operations of Allied Mills have been valued at \$380-420 million. While this value implies relatively high multiples of FY12 earnings for this kind of business (9.0-9.9 times EBITDA), it is necessary to recognise the uplift in earnings that is expected to arise from the recent acquisition of Potts Bakeries and the forthcoming commissioning of the expanded Tennyson Mill in mid 2013 (the cost of both of these has been included in the calculation of net borrowings).

The low end of the valuation approximates Allied Mills net tangible assets at 31 March 2013 and GrainCorp's carrying value.

■ Core debt has been estimated to be \$330 million

The deduction for net borrowings is based only on "core" debt and excludes borrowings related to the funding of GrainCorp Marketing inventories (which are effectively deducted in valuing the GrainCorp Marketing business) and GrainCorp Oils commodity inventories. Core borrowings fluctuates substantially over the course of the year largely because of seasonal working capital movements (outside of GrainCorp Marketing and GrainCorp Oils inventories). The movement between the peak and the low point exceeds \$150 million. The level of core borrowings used in the valuation of \$330 million represents an estimate of normalised core borrowings across the year based on monthly net borrowings (actual and forecast) for the year to 30 September 2013 (assuming the interim dividend of 25 cents per share is not paid). It has been cross checked by grossing up interest expense for the year (on core borrowings) at average interest rates. The amount of \$330 million exceeds GrainCorp's forecast core net borrowings at year end.

■ The ADM Offer is fair and reasonable

The ADM Offer of \$13.20 per share exceeds the bottom end of Grant Samuel's valuation range (\$12.74). Accordingly, the ADM Offer is fair.

As the ADM Offer is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the ADM Offer and which GrainCorp shareholders should consider in determining whether or not to accept the offer. They include the following:

- the ADM Offer represents a substantial premium over the share price prior to the announcement of the initial ADM proposal on 22 October 2012:

Implied Premium over Pre Bid Share Price				
Date/Period	Adjusted Share Price ³⁰ (\$)	Implied Premium (%)	Unadjusted Share Price (\$)	Implied Premium (%)
18 October 2012 – Pre-announcement price	\$8.74	51.0%	\$8.85	49.2%
1 week prior to 18 October 2012 – VWAP ³¹	\$8.88	48.6%	\$8.99	46.8%
1 month prior to 18 October 2012 – VWAP	\$8.79	50.2%	\$8.90	48.3%
3 months prior to 18 October 2012 – VWAP	\$9.02	46.3%	\$9.16	44.1%

The implied premiums for control are well above the levels usually associated with takeovers of 20-35%. At the same time:

- the reality is that observed takeover premiums fall in a very wide range (the majority fall outside the 20-35% range) and premiums of 50% are not uncommon;
- the recent acquisitions of AWB, ABB and Viterro also involved very high premiums of circa 50%;
- in the absence of a takeover offer (or speculation as to a possible offer), GrainCorp shares are likely to trade at prices well below \$13.20 and may well trade down towards prices prevailing prior to the initial proposal in October 2012 (around \$9) at least in the short term until the benefits of the various initiatives flow through to profits;
- there is no structural or absolute impediment to an alternative acquirer coming forward and making a higher offer for GrainCorp. However:
 - ADM's 19.85% interest may act as a deterrent to other bidders (but will not stop a determined bidder); and
 - no firm proposal that was likely to deliver better value has been put forward in the eight month period since October 2012. Up until the signing of the Implementation Deed (being 25 April 2013), GrainCorp and its advisers engaged in discussions with a number of industry participants to assess potential interest;
- of the total consideration of \$13.20, \$1.00 per share is to be paid by GrainCorp as a dividend (expected to be fully franked). The franking credits attached to the dividend may provide additional value over and above \$13.20 to some shareholders compared to receiving the \$1.00 as a capital gain. In summary:
 - foreign shareholders (who are generally unable to use franking credits) will be no better off assuming capital gains or trading profits are taxed at the same rates as dividends;
 - individual Australian resident shareholders on the top marginal rate (45% plus Medicare Levy) will be very marginally better off (approximately 0.4 cents per \$1.00 of dividend);
 - individuals on rates below the top marginal rate and superannuation funds will be better off by varying amounts (up to 43 cents); and
 - Australian corporations will be better off by 30 cents; and
- if ADM Australia satisfies its minimum acceptance condition (50.1%) but does not proceed to 100% ownership (i.e. fails to get to 90%) there will be a rump of remaining GrainCorp shareholders. Apart from the fact that GrainCorp will be controlled by ADM, remaining shareholders need to recognise that the likely trading price (assuming there is no expectation of further mop up offers) will also be adversely impacted by the reduction in liquidity (which could be very significant).

³⁰ On an adjusted basis (i.e. reflecting rights issues, bonus issues and special dividends).

³¹ VWAP is volume weighted average price.



■ **Shareholders have some value protection in the event of delays in obtaining regulatory approvals**

The precise timing of payment of the base consideration of \$13.20 is uncertain (except for the interim dividend of 25 cents payable in July 2013) and is subject to conditions including regulatory approvals (except to the extent these are waived). However, it should be recognised that:

- most takeovers involve at least three months from announcement until the consideration is paid;
- if payment is delayed beyond 30 September 2013, GrainCorp shareholders will receive an additional earnings dividend equal to 3.5 cents for each full month that the regulatory conditions are not satisfied or waived. This compensation is equivalent to 42 cents per annum and represents:
 - an amount broadly in line with GrainCorp's base dividend (i.e. before special dividends) of 35 cents in FY12 and 20 cents in the half year to 31 March 2013; and
 - an effective interest rate of 3.2% (net) and 4.5% (grossed up for franking credits) on the \$13.20 consideration;
- the net borrowings figure used to determine the value range to some extent took account of GrainCorp's cash flow generation to 30 September 2013; and
- even if the value of the consideration was discounted for, say, two months at 10% per annum it still falls within Grant Samuel's value range.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual GrainCorp shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by ADM Australia and the Target's Statement issued by GrainCorp in relation to the ADM Offer.

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the ADM Offer is fair and reasonable to GrainCorp shareholders and to state the reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the ADM Offer, the responsibility for which lies with the directors of GrainCorp.

Acceptance or rejection of the ADM Offer is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. Shareholders who are in doubt as to the action they should take in relation to the ADM Offer should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates



**Financial Services Guide
and
Independent Expert's Report
in relation to the takeover offer by
ADM Australia Holdings II Pty Limited**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

24 June 2013

GRANT SAMUEL



GRANT SAMUEL & ASSOCIATES

LEVEL 19 GOVERNOR MACQUARIE TOWER

1 FARRER PLACE SYDNEY NSW 2000

GPO BOX 4301 SYDNEY NSW 2001

T: +61 2 9324 4211 / F: +61 2 9324 4301

www.grantsamuel.com.au

Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for GrainCorp Limited in relation to the takeover offer by ADM Australia Holdings II Pty Limited ("the GrainCorp Report"), Grant Samuel will receive a fixed fee of \$610,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the GrainCorp Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the GrainCorp Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the GrainCorp Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with GrainCorp, ADM or ADM Australia or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the ADM Offer. Grant Samuel advises that Grant Samuel Securities Pty Limited ("GS Securities"), a related company of Grant Samuel, was retained by GrainCorp in August 2012 to provide independent advice in connection with a potential equity raising. This assignment was completed in August 2012 and GS Securities received a fixed fee of \$200,000.

Grant Samuel commenced analysis for the purposes of this report in December 2012 prior to the announcement of the ADM Offer. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the ADM Offer.

Grant Samuel had no part in the formulation of the ADM Offer. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$610,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the ADM Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the GrainCorp Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the GrainCorp Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS LICENCE NO 240985

Table of Contents

1	Details of the Offer	1
2	Scope of the Report.....	3
2.1	Purpose of the Report	3
2.2	Basis of Evaluation	3
2.3	Sources of the Information	4
2.4	Limitations and Reliance on Information	4
3	The Grains Industry	7
3.1	Overview	7
3.2	Global Demand and Supply.....	7
3.3	Australian Demand and Supply	11
3.4	Handling and Storage	14
3.5	Marketing.....	17
3.6	Flour Milling.....	18
3.7	Malt Processing	19
3.8	Oilseed Processing	24
3.9	Australasian Bulk Liquid Storage	27
3.10	Supply Chain Integration	28
4	Profile of GrainCorp Limited.....	29
4.1	Background.....	29
4.2	Financial Performance.....	30
4.3	Financial Position	34
4.4	Capital Structure and Ownership.....	37
4.5	Share Price Performance.....	39
5	Business Operations	42
5.1	Overview of Business Model.....	42
5.2	Storage & Logistics	43
5.3	GrainCorp Marketing.....	47
5.4	GrainCorp Malt.....	49
5.5	GrainCorp Oils.....	53
5.6	Allied Mills (60% interest).....	56
6	Valuation of GrainCorp Limited.....	60
6.1	Summary	60
6.2	Alternative Valuation Methodologies	61
6.3	Valuation Approach for GrainCorp.....	64
6.4	Normalised Earnings.....	66
6.5	Market Valuation Parameters.....	69
6.6	Valuation of Business Units	76
6.7	Business Development Initiatives.....	84
6.8	Corporate Overheads.....	85
6.9	Overall Valuation Multiples	86
6.10	Allied Mills (60% interest).....	88
6.11	Other Assets and Liabilities.....	92
6.12	Net Borrowings	92
6.13	Synergies	92
6.14	Franking Credits	93
7	Evaluation of the ADM Offer	94
7.1	Conclusion.....	94
7.2	Fairness	94
7.3	Reasonableness	95
7.4	Other Matters	99
7.5	Shareholder Decision	99

GRANT SAMUEL



8	Qualifications, Declarations and Consents.....	100
8.1	Qualifications.....	100
8.2	Disclaimers.....	100
8.3	Independence.....	100
8.4	Declarations.....	101
8.5	Consents.....	101
8.6	Other.....	101

Appendices

1	Broker Consensus Forecasts
2	Market Evidence - Comparable Listed Companies
3	Market Evidence - Transactions

1 Details of the Offer

On 26 April 2013, GrainCorp Limited (“GrainCorp”) announced that it had entered into a takeover bid implementation deed (“Implementation Deed”) with Archer Daniels Midland Company (“ADM”) under which, subject to the satisfactory completion of limited due diligence, a wholly owned subsidiary of ADM, ADM Australia Holdings II Pty Limited (“ADM Australia”), would make a conditional off-market takeover offer (“ADM Offer”) for all of the shares in GrainCorp that ADM Australia does not already own. Under the ADM Offer, shareholders will receive total cash payments of \$13.20 per share comprising an offer price of \$12.20 cash per share from ADM Australia and dividends paid by GrainCorp totalling \$1.00 per share (such dividends being expected to be fully franked). The offer price will be reduced by an amount equal to any other dividends paid by GrainCorp, other than the earnings dividend referred to below. On 2 May 2013, ADM announced that it had completed its due diligence and intended to proceed to make the ADM Offer.

ADM is listed on the New York Stock Exchange (“NYSE”) and Frankfurt Stock Exchange. It converts oilseeds, corn, wheat and cocoa and other agricultural commodities into products for human consumption, animal feed and industrial and energy uses. It is headquartered in Decatur, Illinois in the United States of America and sells to customers in more than 140 countries. ADM derived revenues of US\$91 billion in the 12 months to 31 December 2012 and had a market capitalisation of approximately US\$22 billion as of 20 June 2013.

ADM Australia has a 19.85% relevant interest in GrainCorp shares¹. The ADM Offer follows two previous proposals by ADM that were rejected by GrainCorp:

- on 19 October 2012, ADM announced that it had acquired a 14.9% interest in GrainCorp and made a conditional non-binding proposal to acquire the remaining shares in GrainCorp for \$11.75 cash per share. The GrainCorp board advised ADM on 15 November 2012 that this proposal materially undervalued GrainCorp; and
- on 3 December 2013, ADM Australia acquired an additional 5% interest in GrainCorp (increasing its interest to 19.9%²) and made a revised conditional non-binding proposal to acquire the remaining shares in GrainCorp at \$12.20 cash per share (with shareholders entitled to retain the \$0.35 final dividend for the year ended 30 September 2012). The GrainCorp board advised ADM on 13 December 2012 that this revised proposal also materially undervalued GrainCorp.

The ADM Offer is subject to a number of conditions which are set out in full in the Bidder’s Statement issued by ADM Australia. In summary, they are:

- that ADM Australia obtains a relevant interest in at least 50.1% (inclusive of ADM’s current 19.85% relevant interest) of all GrainCorp shares (on a fully diluted basis);
- no objections to the ADM Offer are made under the Foreign Acquisitions and Takeovers Act, 1975 (“FIRB Approval”);
- the Australian Competition & Consumer Commission (“ACCC”) does not oppose or take or give notice of action or commence legal proceedings to prevent or restrain the acquisition of GrainCorp shares under the ADM Offer, or notifies ADM Australia or GrainCorp that it will not approve the acquisition of GrainCorp shares under the ADM Offer unless ADM Australia agrees to conditions or undertakings (“ACCC Approval”);
- that before the end of the offer period:
 - certain approvals are obtained from the relevant foreign competition authorities (“Regulatory Approvals”)³;
 - there is not in effect any preliminary or final decision, order or decree issued by a regulatory body and no inquiry, action or investigation is instituted or threatened by any regulatory body

¹ Based on 228,855,628 shares on issue at 20 June 2013.

² GrainCorp issued an additional 614,147 shares on 21 December 2012 pursuant to the GrainCorp Employee Share Ownership Plans, reducing ADM Australia’s interest to 19.85%.

³ Including approval of the Ministry of Commerce of the People’s Republic of China (“MOFCOM”).

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which materially adversely impacts the ADM Offer or requires divestiture of any GrainCorp shares or assets by ADM;

- no material adverse change occurs that will, or is reasonably likely to, reduce the GrainCorp Group's consolidated net assets by at least \$125 million or future recurring profit before income tax by at least \$25 million per year (except as allowed in the Implementation Deed);
- GrainCorp does not breach Clause 7 (conduct of the business, reasonable access to information, premises and personnel by ADM and changes to the board) of the Implementation Deed;
- as a result of the ADM Offer, no person is or becomes entitled to exercise (and has not waived that right without requiring payment or a change of terms), exercises or states an intention to exercise any rights under any material agreement or instrument which (in aggregate of all such agreements or instruments) results, or is reasonably likely to result, in:
 - a material amount of borrowings to become repayable or capable of being declared repayable immediately or earlier than the specified repayment date;
 - any such agreement or instrument being terminated or modified or any action being taken or arising which is material to GrainCorp; and
 - an interest in any entity being terminated, modified or required to be disposed of and which is material to GrainCorp,

other than in relation to any agreement or instrument previously fairly disclosed to the Australian Securities Exchange ("ASX") or to ADM;

- GrainCorp does not declare or pay any distribution other than as allowed under the Implementation Deed; and
 - GrainCorp does not grant or issue any share and performance rights (except as permitted under the Implementation Deed) and all existing share and performance rights must be converted or cancelled or be subject to cancellation agreements; and
- none of the prescribed occurrences (as set out in Sections 652C(1) and (2) of the Corporations Act, 2001 ("Corporations Act")) and modified under the Implementation Deed) occur between 2 May 2013 and the third day after the end of the offer period.

In addition, under the Implementation Deed GrainCorp and ADM have agreed:

- to a no-shop provision which does not prevent GrainCorp from taking action in relation to any unsolicited competing proposal (defined as a proposal which would result in a third party acquiring a relevant interest in 20% or more the issued capital of GrainCorp, acquiring control of or merging with GrainCorp or acquiring the right to acquire an economic interest in all or a substantial part of the business of GrainCorp);
- that during the exclusivity period (26 April 2013 to the earlier of the termination of the Implementation Deed and the end of the offer period) GrainCorp must give ADM two days written notice of the material terms and conditions of a competing proposal (including price and identity of the person making the proposal) during which time ADM has the right to make a counter proposal that if implemented would result in an outcome that is as favourable or more favourable to the competing proposal for GrainCorp shareholders;
- that from 26 April 2013 to 31 December 2013 ADM may not without the prior written consent of GrainCorp dispose or agree to offer to dispose any GrainCorp shares in which it has a relevant interest as at 26 April 2013; and
- that if the regulatory conditions (i.e. FIRB Approval, ACCC Approval and Regulatory Approvals) have not been fulfilled by 1 October 2013 then, subject to GrainCorp being profitable during the period, an additional dividend (expected to be fully franked) equal to 3.5 cents for each full month from 30 September 2013 will be payable to shareholders by GrainCorp until the earliest of the date that the regulatory conditions have been satisfied or waived, or the date ADM terminates the Implementation Deed as a result of any of the GrainCorp directors withdrawing or changing their recommendation, or the date on which the majority of GrainCorp directors withdraw or change their recommendation.

The directors of GrainCorp have unanimously recommended that GrainCorp shareholders accept the ADM Offer, subject to the qualifications specified in the Target's Statement.

2 Scope of the Report

2.1 Purpose of the Report

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of GrainCorp have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the ADM Offer is fair and reasonable and to state reasons for that opinion. A copy of the report is to accompany the Target's Statement to be despatched to shareholders by GrainCorp.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual GrainCorp shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Bidder's Statement issued by ADM Australia and the Target's Statement issued by GrainCorp in relation to the ADM Offer.

Whether or not to accept the ADM Offer is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the ADM Offer should consult their own professional adviser.

2.2 Basis of Evaluation

The term "fair and reasonable" has no legal definition although over time a commonly accepted interpretation has evolved. However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable".

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

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Grant Samuel has determined whether the ADM Offer is fair by comparing the estimated underlying value range of GrainCorp with the offer price. The ADM Offer will be fair if it falls within the estimated underlying value range. In considering whether the ADM Offer is reasonable, the factors other than fairness that have been considered include:

- the existing shareholding structure of GrainCorp;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of GrainCorp shares in the absence of the ADM Offer; and
- other advantages and disadvantages for GrainCorp shareholders of accepting the ADM Offer.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- annual reports of GrainCorp for the six years ended 30 September 2012;
- half year announcement of GrainCorp for the six months ended 31 March 2013;
- press releases, public announcements, media and analyst presentation material and other public filings by GrainCorp including information available on its website;
- brokers' reports and press articles on GrainCorp and the grains industry;
- sharemarket data and related information on Australian and international listed companies engaged in the grains industry and on acquisitions of companies and businesses in that industry; and
- information relating to the Australian and international grains industry including supply/demand forecasts and regulatory decisions and pronouncements (as appropriate).

Non Public Information provided by GrainCorp

- working estimates of earnings and cash flows for the year ending 30 September 2013 prepared by GrainCorp management;
- other confidential documents, board papers, presentations and working papers;
- an advanced draft of the Bidder's Statement; and
- an advanced draft of the Target's Statement (and earlier drafts).

Grant Samuel has also held discussions with, and obtained information from, senior management of GrainCorp and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by GrainCorp and its advisers. Grant Samuel has considered and relied upon this information. GrainCorp has

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represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the ADM Offer is fair and reasonable to GrainCorp shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or “due diligence” investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of GrainCorp or ADM. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included the working estimate for GrainCorp for the year ending 30 September 2013 (“FY13 Estimate”) prepared by GrainCorp management. GrainCorp is responsible for the FY13 Estimate (“the forward looking information”). Grant Samuel has considered and, to the extent deemed appropriate, relied on the forward looking information for the purposes of its analysis. Grant Samuel has not investigated this financial information in terms of the reasonableness of the underlying assumptions, accuracy of compilation or application of assumptions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant’s examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the FY13 Estimate is based on actual operating results for GrainCorp for the six months ended 31 March 2013. In this context, it is important to recognise that the harvest of the winter crop for 2012/13, which represents the vast majority of the annual crop has been completed;
- GrainCorp’s businesses are all mature businesses (albeit subject to the impact of factors such as commodity price movements, crop size variability and foreign exchange rate movements); and
- GrainCorp has sophisticated management and financial reporting processes. Forecasting full year results for internal management purposes is a regular part of the GrainCorp management reporting process.

The FY13 Estimate has not been publicly disclosed and therefore has not been included in this report. GrainCorp has not prepared any comprehensive internal forecast beyond FY13.

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In order to provide an indication of the expected financial performance of GrainCorp, Grant Samuel has utilised brokers' forecasts for GrainCorp (see Appendix 1). Grant Samuel has used the median of the brokers' forecasts as the basis for calculating certain valuation parameters implied by its valuation of GrainCorp. The median FY13 broker forecasts are considered appropriate for analytical purposes having regard to the FY13 Estimate (subject to the issues noted in Section 6.6). The median broker forecasts for FY14 and FY15 cannot be compared to company forecasts.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forecast is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Target's Statement sent by GrainCorp to its shareholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading.

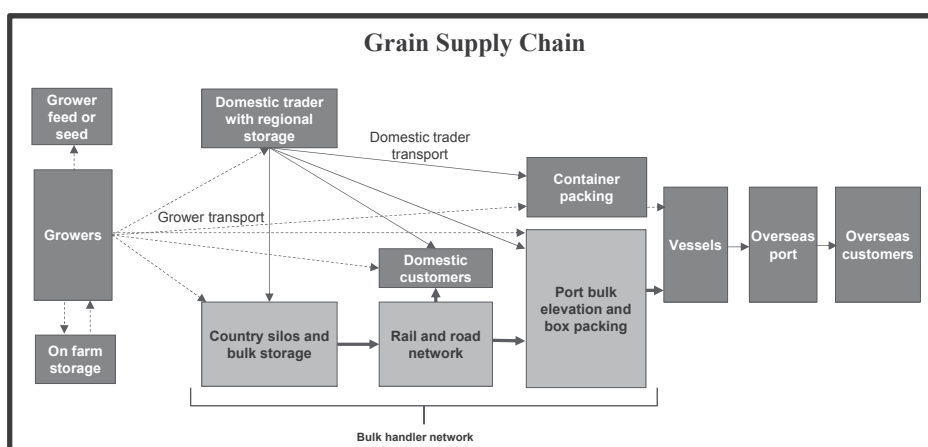
To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 The Grains Industry

3.1 Overview

Grains are seeds cultivated as a source of energy, carbohydrate, protein and fibre. They include cereals such as wheat and coarse grains (e.g. barley, sorghum, corn), oilseeds (e.g. soybean, canola) and pulses (e.g. chickpeas, lentils) and are primarily produced for human consumption, stockfeed and biofuels.

The grains industry is part of the global agricultural sector and encompasses all segments of the grain supply chain from production through to the customer that processes the grain:



Source: Grant Samuel

The dynamics of the grains industry reflect the complex interaction of global and local demand and supply factors. Furthermore, each segment of the grains industry differs substantially in terms of:

- the nature and level of competition and identity of major participants;
- the basis of revenue generation;
- product differentiation;
- quality variation and degree of substitutability;
- geographical markets and type of customers; and
- regulatory issues and risks.

GrainCorp operates across the grain supply chain (except for production) both in Australia and internationally and across a number of different crops. The remainder of this section provides an overview of each segment of the grains industry with a focus on GrainCorp's three core grains (wheat, barley and canola) and its key geographies (Australasia, North America and Europe).

3.2 Global Demand and Supply

Consumption

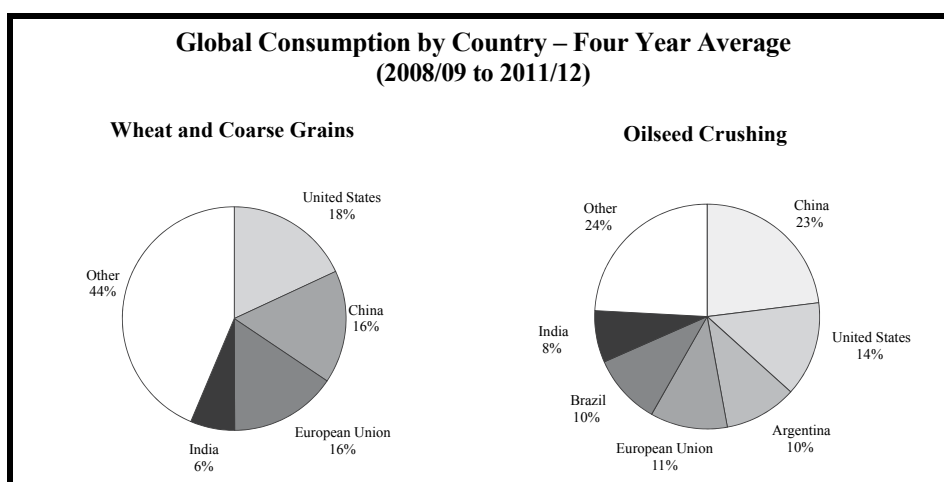
Wheat is produced primarily for human consumption (69% of consumption) with livestock feed accounting for 19%⁴. Coarse grains are mainly consumed as livestock feed (53% overall but 66%

⁴ Information in this report on the grains industry is from a wide range of sources. The major sources for global data are "OECD-FAO Agricultural Outlook 2012-2021", Food and Agriculture Organization of the United Nations ("FAO"), "FAPRI-ISU 2012 World Agricultural Outlook", Food and Agricultural Policy Research Institute and the websites of the United States Department of Agriculture Foreign Agricultural Service ("USDA") and the International Grains Council ("IGC"). The major sources for Australian data are "Australian Crop Report", Department of Agriculture, Fisheries and Forestry ("ABARES"), February 2013, "Agricultural Commodities", ABARES, March Quarter 2013 (including forecasts), "Agricultural Commodity Statistics", ABARES, 2012 and "Australian Food Statistics, 2011-12", ABARES and "ACF Crop Report" and "ACF S&D Report", Australian Crop Forecasters, March 2013.



for barley) with human consumption (e.g. malting barley) and biofuels (i.e. ethanol) accounting for 18% and 14% of consumption respectively. Approximately 83% of oilseed production is crushed to produce oils (commonly referred to as “soft oils”) primarily used for human consumption and biofuels (i.e. biodiesel) and protein meal for livestock feed with the balance used as seed stock (i.e. oilseeds are not used directly for livestock feed).

Developing countries account for around 60% of both wheat and oilseed consumption, although consumption per capita is significantly lower than in developed countries. In comparison, total consumption of coarse grains is evenly split between developed and developing countries as a result of higher meat consumption (which requires a proportionately greater amount of grain to produce) and ethanol use in developed countries:



Source: USDA

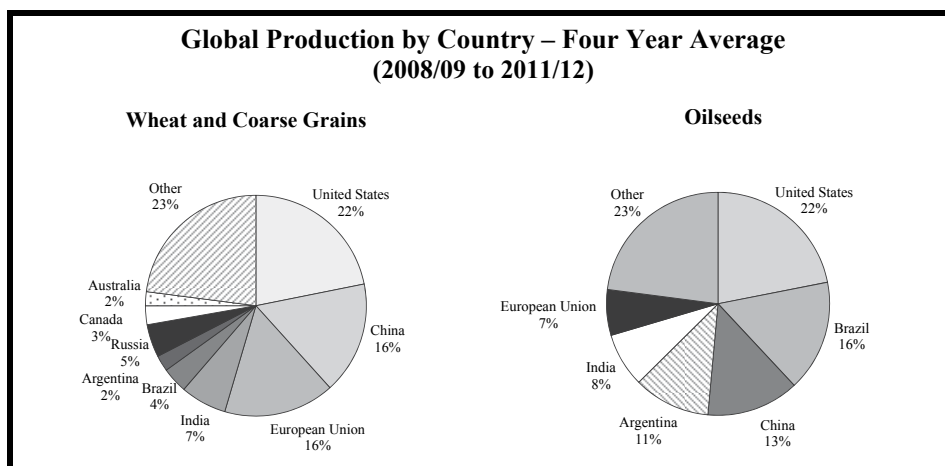
Growth in demand for grains primarily reflects population growth (estimated by the FAO at 1% per annum to 2020/21) and increased consumption in developing countries. Per capita consumption of wheat is expected to remain flat, resulting in average demand growth of 1% per annum to 2020/21. Per capita coarse grain consumption is expected to increase by 0.4% per annum as growth in developing countries leads to increased meat consumption, resulting in overall demand growth in coarse grains of 1.5% per annum. Oilseed demand is expected to increase by 1.8% per annum as a result of increased consumption of soft oils.

Production

Global grain production is around 2.2 btpa⁵. Coarse grains account for around 50% of production (with barley representing 5.5% of total grain production), wheat accounts for around 30% and oilseeds for around 20%. The major oilseeds produced are soybean (56% of oilseed production), canola (14%), cottonseed (10%), peanut (8%) and sunflower (8%).

The largest global producers of wheat and coarse grains in the northern hemisphere are the United States, China, European Union, India, Russia and Canada and in the southern hemisphere are Brazil, Argentina and Australia. The major producers of oilseeds are the United States, Brazil, China, Argentina, India and the European Union which, together, produce close to 80% of global production:

⁵ btpa = billion tonnes per annum.



Source: USDA

Global grain production fluctuates from year to year. While weather conditions impact the crop yield in the short term, global grain production is also influenced by:

- the area planted and availability of land for additional crops. At the margin, grain prices and foreign exchange rates can influence the area sown and the mix of grains grown;
- technological development (e.g. genetically modified grains which increase yield and/or resistance to disease and pests);
- improvement in farm management practices;
- government regulation and subsidies;
- development of land and water resource management strategies; and
- long term global weather patterns.

Future growth in global grain production is expected to result primarily from higher yields, rather than an increase in area planted:

- the area planted with grains has grown slowly by around 0.5% per annum over the past 40 years, with the area planted to oilseed growing by 2% per annum while the area planted to wheat and coarse grains has remained relatively flat. To 2021/22, the area planted to wheat is expected to increase by 0.3% per annum (mainly in the Black Sea region⁶) and to coarse grains by 0.7% per annum (mainly in Brazil, Argentina, Canada and several sub-Saharan African countries⁷). The area planted to oilseeds is expected to continue to increase at around 2% per annum, primarily due to expansion of areas for soybean production in Argentina and Brazil and sunflower seed production in the Black Sea region; and
- yields for wheat, coarse grains and oilseeds have increased by around 1.4% per annum over the past 40 years and continued improvement is expected, albeit at lower rates. Coarse grain yields are expected to increase by around 1.3% per annum to 2021/22 as a result of yield improvement in the major producing countries of China, Brazil and Argentina. Yields for wheat and oilseeds are expected to increase more modestly, by 0.9% and 0.4% respectively.

In total, global wheat production in the period to 2021/22 is expected to increase by 0.9% per annum, coarse grains production by 1.4% per annum (with barley expected to increase by 1.9% per annum) and oilseed production by 1.8% per annum (with canola to increase by 2.0% per annum).

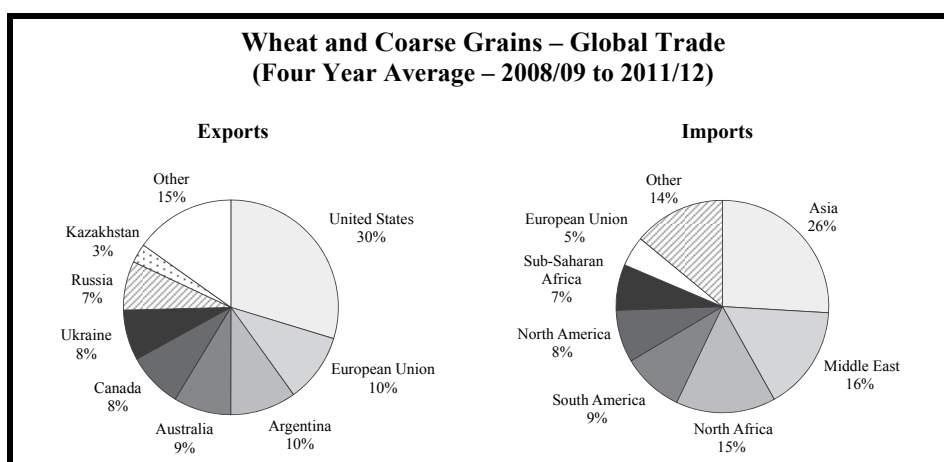
⁶ Including Russia, Ukraine and Kazakhstan.

⁷ African countries south of the Sahara Desert (i.e. excludes North Africa).

International Trade

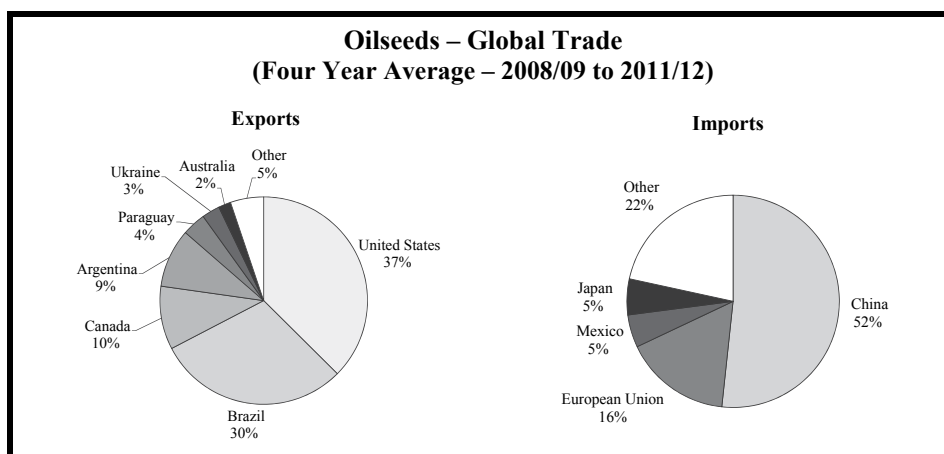
Approximately 0.4 btpa of grain is traded across borders with wheat, barley and canola representing around 35% of that volume. A small number of developed countries account for the majority of grain exports, while a large number of developing countries account for the majority of imports.

The major exporters of wheat and coarse grains are the United States, European Union, Argentina, Australia and Canada. The largest markets for international grain trade are Asia, the Middle East and North Africa:



Source: USDA

Soybean represents 84% of oilseeds traded internationally and canola 11%. The major exporters of oilseeds are the United States, Brazil, Canada, Argentina, Paraguay, Ukraine and Australia. China accounts for over 50% of imports and the European Union 16%:



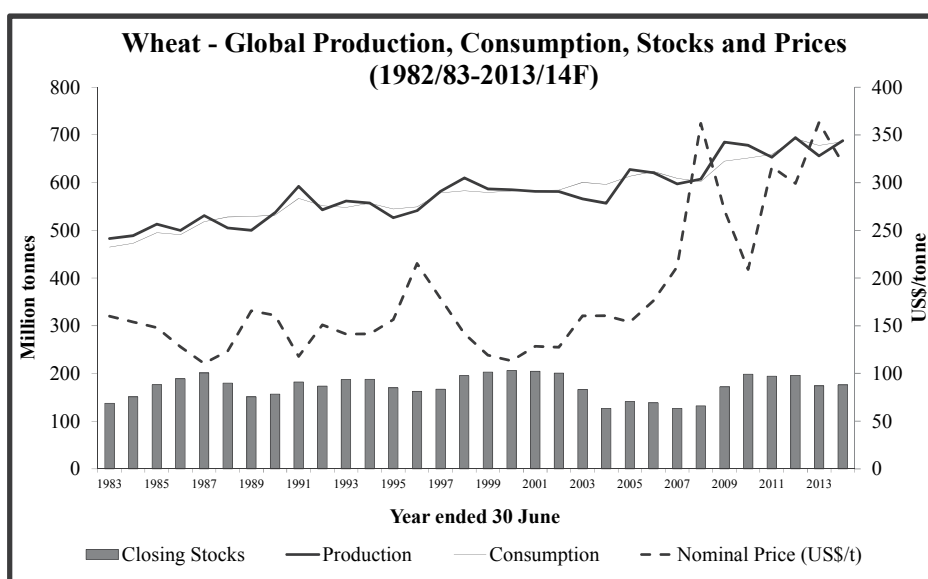
Source: USDA

As demand increases in developing countries, international trade in wheat is expected to expand by 1.2% per annum to 2020/21 while trade in coarse grains and oilseeds is expected to increase by 1.9% and 1.8% per annum, respectively (with trade in barley to increase by 3.3% per annum). The greatest increases in imports are expected to come from China, the rest of Asia, North Africa and the Middle East and, increasingly, from sub-Saharan Africa. Growth in oilseed trade is projected to slow as a result of a reduction in the growth of Chinese oilseed production capacity.



Prices

Grains are global commodities with prices reflecting global supply and demand. For example, global wheat prices reached a record high in February 2008 as a result of a combination of low production and low stocks in 2007 when a shortage of quality hard wheat resulted in panic buying. Increased prices also occurred in 2010/11 as a result of a severe drought in Russia and remained elevated during 2012 as a result of drought in North America. Since then prices have declined by around 15% reflecting softer global demand, high rainfall in the south east United States and the realisation that grain stocks in the United States were higher than previously estimated:



Source: ABARES

Note: Closing stocks based on national carryover levels at the end of national crop years. Therefore, aggregate closing stock does not represent stock levels at fixed points in time.

3.3 Australian Demand and Supply

Overview

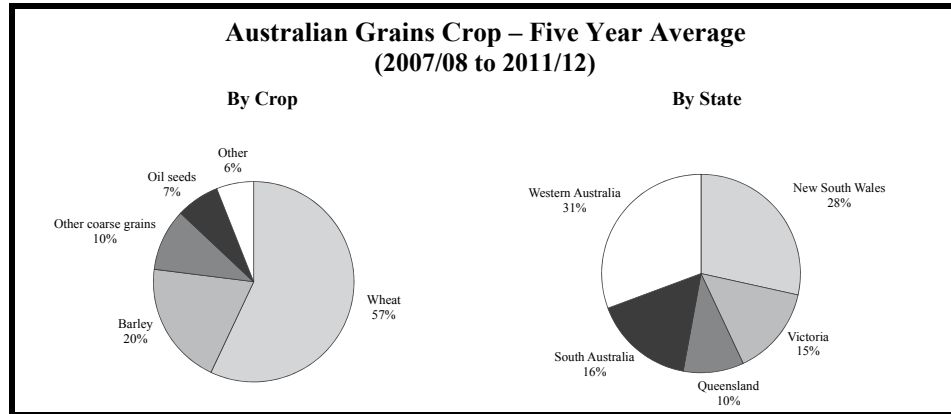
Australia's climate is most suited to producing wheat, barley and canola. Approximately 90%⁸ of production is from winter planted crops which are harvested in the northern growing regions in November with the harvest substantially completed by the end of December in the southern regions. Some summer crops (e.g. sorghum) are grown in Queensland and northern New South Wales and harvested in February to June.

Production

Australia has produced an average of 40.7 mtpa⁹ of grain over the last five years. The main crop produced is wheat (57% of production) with barley and canola representing 20% and 4% of production respectively:

⁸ Based on five year annual average from 2007/08 to 2011/12.

⁹ mtpa = million tonnes per annum.



Source: Department of Agriculture, Fisheries and Forestry, ABARES

Note: Excludes triticale and minor oilseeds

Australian grain production is projected to increase by an average of 3.1% per annum to 43.6 mt¹⁰ by 2017/18. The strongest growth is expected for barley (4.3%) and wheat (3%) while oilseed production is expected to be flat.

Eastern Australia (encompassing the growing areas of Queensland, New South Wales and Victoria) contributes around 53% of Australian grain production. This region produced around 48% of Australia's wheat, 43% of barley, 40% of canola and 100% of other grains in the last five years¹¹.

Approximately 10 million hectares is planted with grain in eastern Australia. Since the 1960s, the area planted has increased by around 2.7% per annum as a result of land clearing, new grain varieties and improved farming management practices. The growth in new areas planted has mostly been towards the western side of the grain belt. Short term fluctuations in the area planted largely reflect rainfall at planting and the relative commodity prices of grains and livestock. Further growth in area planted to grains in eastern Australia is expected only from the conversion of land used for livestock and other agricultural uses and therefore growth in area planted is expected to slow.

Over the last 20 years, the share of area planted with oilseeds in eastern Australia has increased from 3% to 11% while the share of acreage planted with barley has decreased. The trend to increased areas of oilseeds is expected to continue in the short to medium term at the expense of both wheat and other coarse grains (excluding barley).

Average grain crop yield in eastern Australia is around 2 tonnes per hectare. Since the 1960's, the yield in eastern Australia has increased by approximately 0.7% per annum. The rate of average yield increase has moderated in recent years, however, the main determinant of yield variation is rainfall patterns with La Niña and El Niño events in the Pacific Ocean having a significant influence on rainfall in eastern, southern and northern Australia. For example, a weak to moderate El Niño event produced two consecutive years of drought conditions during the 2006/07 and 2007/08 harvests while a strong La Niña event produced record levels of rainfall and resulted in high grain harvests in 2010/11 and 2011/12. Average yield is expected to increase by around 1% per annum to 2017/18, consistent with productivity growth over the past decade. Yields would increase if genetically modified grains (in addition to cottonseed) were introduced. Climate change may have an impact on yield growth and volatility.

Growth in area planted and yield enhancement has resulted in a substantial increase in average production in eastern Australia since the 1960's (approximately 3.8% per annum). The greatest increase has occurred in the production of oilseeds, which has increased by an average of 7.3% per annum.

¹⁰ mt = million tonnes.

¹¹ Western Australia produced around 35% of Australian wheat, 32% of barley and 50% of canola. South Australia produced around 17% of Australian wheat, 25% of barley and 13% of canola.



The 2012/13 winter crop harvest in eastern Australia is complete and the summer crop harvest is largely complete. ABARES estimates the eastern Australian winter crop harvest at 18.3 mt (around 14% below 2011/12 but 6% higher than the five year average) and Australian Crop Forecasters estimates the winter crop harvest in eastern Australia (excluding linseed and safflower) at 18.4 mt. Overall, summer crop production is expected to be 13% below 2011/12 as a result of a reduction in area planted, heatwave conditions in January 2013 and below average rainfall for much of the growing season.

Planting of the 2013/14 winter crop is well underway, particularly in Queensland and northern New South Wales. Area planted in eastern Australia is expected to be 3% lower than in 2012/13 (primarily canola) as a result of relatively high grain prices and above average rainfall in south eastern Queensland and north eastern New South Wales, partially offset by below average rainfall in Victoria and Southern New South Wales. The outlook is for continuation of current rainfall patterns and above average temperatures. Australian Crop Forecasters expects the 2013/14 winter crop in eastern Australia to be 18 mt.

Consumption

Approximately 35% of Australia's annual grain production (14.4 mt) is consumed domestically with the balance stored or exported. This pattern differs by region and grain type. For example, around 50% of grain produced in eastern Australia is consumed domestically whereas around 90% of production in Western Australia and 75% of production in South Australia is exported. On average, approximately 33% of wheat production, 42% of barley and 40% of canola is consumed domestically.

Grain is sold domestically for human consumption (44%) and for use as livestock feed (56%), although the proportion of grain sold for human consumption varies by type of grain. On average, around 40% of wheat consumed domestically is used to produce flour, 30% of barley consumed domestically is used for malting and 100% of canola consumed domestically is crushed to produce oils and protein meal. Other coarse grains are mainly used as livestock feed with increasing amounts of sorghum being used to produce ethanol.

Human and industrial consumption has increased by approximately 1.1% per annum over the last ten years, reflecting relatively stable grain consumption per capita. Declines in per capita consumption of wheat have been offset by increases in consumption of barley and oilseeds and increased use of wheat for ethanol. Domestic use of grain for livestock feed varies considerably, depending on pasture, relative grain prices and prices for export meat. Overall, stockfeed consumption has increased by an average of 0.4% per annum, largely driven by the export meat market.

Demand for human consumption of grains in Australia is forecast to grow by 0.3% per annum, below population growth (of around 1.2% per annum) due to declining consumption per capita to 2021/22. In comparison, demand for grains for livestock feed is expected to increase due to increased export demand for meat, particularly in Asia.

Exports

Australia is not a major producer of grains by global standards (around 2% of global production) but low domestic demand means that it is a major exporter (around 11% of international trade in wheat and coarse grains, 20% of barley, 30% of malting barley and 2% of canola).

Australian grains have a number of attributes that are sought after by international markets. Australian wheat is white, dry, clean, mid-high protein, has high flour extraction rates and comes in a range of grades (including hard wheat (high protein), premium and standard white, durum and soft). White wheat is preferred for the production of noodles in Asia and the hard consistency means it is good for flat bread (North Africa and Middle East). The size of the Australian barley crop together with its consistent quality provides users certainty of supply. Although the oil and protein content can be variable, Australia's canola is generally clean, dry and low in chlorophyll (reducing the rate of deterioration) and is not genetically modified.

Australia's proximity to key markets in Asia and the Middle East is a key competitive advantage for Australian grain (through lower freight costs). Asia and the North Africa and Middle East



account for around 70% of Australia's wheat exports and around 90% of Australia's barley exports (including malting barley). While Australia is a relatively small producer of oilseeds globally it has developed some significant international markets for its canola with Europe (in particular the Netherlands and Belgium), Pakistan and Japan accounting for around 80% of exports. In March 2013, China lifted a ban on Australian canola imports implemented in 2009 due to concerns about the fungal disease, black leg. The Chinese canola market is estimated at 4 mt per annum.

3.4 Handling and Storage

Overview

The grain supply chain offers many pathways to market. Following harvest, grain is generally delivered by truck to country silos and dispatched as required for either domestic consumption or export. This may involve multiple transfers, including from silos to rail or road transport to export terminals or domestic customers. Grains can also be transported by growers directly to bulk ports, domestic customers or grain traders. Grain for export is loaded onto ships via bulk grain elevators or packed into containers.

Bulk grain handlers are typically involved in all pathways to market with the revenue generated a function of the volume of grain through their network and the range of services provided. The volume of grain through a network depends on the size of the harvest, availability of alternative routes to market, competition from other bulk handlers and the share of grain that is exported. Demand for grain handling and storage services also varies with the range of crops produced, the demand for grain segregation and the level of closing stocks. Considerations for growers in deciding where to deliver grain include time to receive grain at silos and waiting times, distance from farm to silo and the number of buyers or price points at the silo. Bulk handlers may face competition from on-farm storage (e.g. silos, bags, bunkers), grain processors (e.g. flour millers) that have internal storage facilities, domestic traders or local co-operatives with regional storage facilities and other bulk handlers.

Bulk grain handlers act both as principal and as storage agent for growers and buyers. Fees for services provided are charged at various stages along the supply chain, depending on where the grain is delivered (country silos or ports), whether it is stored or blended and whether the grain is sold to domestic or export customers. Fees are collected for receipt, outloading, storage, transport, blending and vessel loading. Storage and transport are the most significant fees charged. Fees typically accrue prior to the sale of grain to a marketer who then pays the handler and deducts that amount from the payment to the grower.

Grain is harvested quickly to avoid the risk of weather damage and quickly placed into storage to avoid deterioration. Storage facilities must be able to provide weighing and testing services, accommodate segregation of grain into different grades, ensure that the correct grade is delivered to the customer and provide pest and other contaminant monitoring and control measures. Consequently, grain handlers have substantial infrastructure to handle large volumes of grain at the peak of the harvest. However, in order to remain profitable grain handlers also need to have the ability to reduce costs during periods of lower demand (e.g. by not opening silos or only opening for limited times and having access to a large casual workforce).

Access to and control of freight services, including rail and road, is important for bulk handlers to ensure the quality and efficiency of the services they provide to both growers and purchasers of grain. The proportion of grain transported via road and rail depends on factors such as whether it is for domestic consumption or export, distance to port and seasonal fluctuations (peak-load periods) and size of harvest. Therefore, bulk grain handlers typically develop rail and road transport capabilities and, in order to deliver services internationally, port capabilities.

Consequently, there are generally significant barriers to entry in bulk handling arising from high capital costs to construct storage facilities and purchase grain handling equipment, limited availability of rail and port access, the strategic advantage from rail capacity and ownership of port terminals and the high level of vertical integration in the grain industry. At the same time, there is active competition from on farm storage and smaller scale operators.



Australian Handling and Storage

In Australia, most grain is stored in country silos owned by bulk handlers and dispatched as necessary with a small proportion stored at port terminals. On average, grain cycles through bulk storage facilities once a year. It is estimated that Australian bulk handlers have around 55 mt of storage capacity (including at export terminals), of which 25 mt is in eastern Australia:

Australian Handling and Storage Capacity (mt)			
Region	Winter Crop Production ⁸	Storage Capacity	
		On-Farm ¹²	Bulk Handlers
New South Wales	11.6	6.2	na
Victoria	5.9	3.2	na
Queensland	4.0	1.8	na
Eastern Australia	21.5	11.2	25.0
South Australia	6.7	1.0	10.0
Western Australia	12.5	2.0	20.0
Total	40.7	14.4	55.0

Source: ABARES, Australian Bureau of Statistics, Company websites.

Wheat was the last Australian grain to be fully deregulated. Prior to 1 July 2008, the export of Australian wheat was controlled by AWB Limited ("AWB") under Commonwealth Government legislation. Under the "single desk", AWB was the only customer for export wheat and related supply chain services and returns to wheat farmers were pooled on a national basis. Abolition of the "single desk" has enabled other parties to provide services along the grain supply chain (both in Australia and internationally) resulting in a more competitive market, not only in relation to marketing but also in bulk transport logistics (as AWB managed much of the eastern Australian rail/road movements).

There are five bulk grain handlers operating in Australia: three in eastern Australia (GrainCorp, Cargill Australia Pty Ltd ("Cargill"), Emerald Group Australia Pty Limited ("Emerald Group")), one in South Australia (Glencore International plc ("Glencore")) and one in Western Australia (Co-operative Bulk Handling Limited ("CBH")):

Australian Bulk Grain Handlers						
Company	Number of Receival and Storage Facilities	Total Storage Capacity (mt)	Average Country Receipts ⁸ (mt)	Share of Country Receipts in Region (%)	Average Bulk Receipts ^{8,13} (mt)	Share of Bulk Handling in Region (%)
Eastern Australia						
GrainCorp	284	21.0	10.0	60%	11.6	75%
Cargill ¹⁴	22	3.0	na	na	na	na
Emerald Group ¹⁵	13 ¹⁶	1.0	na	na	2.5	16%
Total Eastern Australia	315	25.0	na	100%	na	100%
Glencore ¹⁷ (South Australia)	109 ¹⁸	10.0	5.7	85%	6.4	95%
CBH ¹⁹ (Western Australia)	197	20.0	na	na	10.7	90%
Total	621	55.0	na		na	

Source: Company websites

¹² On farm storage capacity is for 2010.

¹³ Includes country and direct at port receipts.

¹⁴ Owned by privately owned United States company, Cargill Inc.

¹⁵ Owned as to 50% by Sumitomo Corporation (a Tokyo Stock Exchange listed company) and 50% by management.

¹⁶ Six receival sites in southern NSW and seven in Victoria.

¹⁷ Glencore is a London Stock Exchange listed company which acquired Viterro, Inc. ("Viterro") in December 2012. Viterro acquired Australian listed company ABB Grain Limited in 2009.

¹⁸ 106 receival sites in South Australia and three in Victoria.

¹⁹ CBH is a grower owned co-operative.



The share of grain handled by bulk handlers in each state varies from year to year, but overall, has remained fairly stable in recent years. In years of poor harvest, a greater proportion of grain is sold for domestic use (particularly in eastern Australia) and, therefore, proportionately less grain passes through bulk handler networks.

More than a third of GrainCorp's storage capacity is permanent (i.e. sealed silos) while Cargill and Emerald's storage capacity primarily comprises bunkers which can be used to store grain for up to a year. While more capital intensive, permanent storage is a competitive advantage as it allows grain to be received and outloaded more efficiently, reduces pest exposure, increases the ability to segregate and blend grain and enables the handler to accumulate grain across seasons.

On-farm storage capacity is more common in eastern Australia due to the higher proportion of domestic consumption. Grain stored on farm can be transported by growers directly to domestic customers in trucks. The bulk supply chain in eastern Australia also competes with exports in containers (for up to 2-2.5 mtpa). Containers also account for an increasing share of export grain from Western Australia and South Australia.

In Australia, rail is more cost effective for the haulage of grain from the more distant regions to the major ports and major domestic consumers. Since deregulation of the export wheat industry, some bulk handlers (e.g. GrainCorp) have become rail service aggregators (by entering into take or pay arrangements with rail providers or owning trains directly) typically subcontracting part of this capacity to other exporters or marketers (i.e. they have taken over functions previously controlled by AWB). Historically, these arrangements have been for no longer than a year but recent changes to port access arrangements are likely to result in longer term rail capacity arrangements.

Road transport is used by many domestic consumers, for deliveries to port from coastal growing regions, from silos not served by rail or for specialised grain shipments. Road transport is also used when rail is unable to meet short term demands such as above average export seasons, peak shipping demand periods or when silos fill up at harvest time. Road transport is generally more competitive than rail transport, although rail transport is generally more efficient. Bulk handlers have therefore also developed road transport management capabilities and will also contract with road transport operators on an "as needed" basis. Although grain marketers also contract directly with rail operators, they may contract directly with trucking companies due to price, convenience, flexibility or lack of availability of rail capacity.

The majority of Australian grain exports (including 85% of wheat exports²⁰) is transported in bulk through one of 20 bulk export port terminals with the balance exported in containers and bags. There are eight major grain export terminals in eastern Australia, seven of which are owned by GrainCorp and one owned by Emerald Group. Glencore owns all eight bulk export terminals in South Australia and CBH owns all four bulk export terminals in Western Australia. Bulk handlers also handle non grain imports and exports at their port terminals. Newcastle Agri Terminal (which is privately owned by management, Glencore, CBH and Singapore listed Olam International Limited ("Olam")) is developing a \$30 million grain terminal at Port of Newcastle, in close proximity to GrainCorp's Carrington terminal. Construction of the terminal's 60,000 tonne silos is expected to be completed by August 2013 with full commissioning (and loading of grain onto ships) expected by January 2014. The terminal is also expected to offer container packing, blending and grading facilities (doubling the cost of the project), likely to be completed by early 2015²¹.

Australian grain export terminals operate on an open access basis with the ACCC overseeing access undertakings which historically have resulted in access to port facilities being sold on an annual basis. However, the ACCC's announcement on 30 November 2012 that it will not object to GrainCorp's proposal to vary access protocols at its seven terminals (enabling it to enter into longer term agreements of up to three years)²² means that exporters can book both rail and port capacity in advance. These changes will be enhanced by further grain port deregulation (enacted

²⁰ "Report for Growers, 2011/12", Wheat Exports Australia.

²¹ Source: "Agri Terminal takes shape", 6 February 2013, www.TheLand.com.au.

²² GrainCorp will allocate up to 60% of its port capacity via long term agreements to exporters willing to commit to minimum export volumes over a three year period. At least 40% of capacity per port, per month will remain available to exporters on an annual basis.

on 3 December 2012) which allows for an industry code of conduct to replace existing port access undertakings from 2015.

3.5 Marketing

Overview

Grain marketing involves the wholesaling of grain to domestic and export customers. Grain marketers either trade grain on their own account, on a back to back basis with their customers or under a pooling system. In the case of pools, marketers generate a fixed fee (and cost reimbursement) with risk (and excess return) falling to the grower. When trading on their own account, grain marketers take a position to seek to capture a margin between prices paid to growers and prices received from customers.

As grains are widely traded commodities, extensive derivatives markets have evolved. Grain marketers use derivatives to hedge long and short positions while sometimes leaving positions open to take advantage of price movements. Once hedged, marketers are exposed to basis risk (the risk that the cash price will differ from the futures price) and counterparty credit risk. Basis risk cannot be hedged, giving marketers the opportunity to take advantage of arbitrage opportunities (e.g. quality (blending) and location (swaps)). Counterparty risk is generally managed by requiring upfront payment from customers for export grain through letters of credit.

Revenue and profits in grain marketing are subject to the variability of grain production, prices, the positions taken by the marketer and risk management processes. Purchasing grain and offering upfront payments to farmers under pools requires significant funding. Therefore, access to high levels of working capital is necessary for grain marketers and interest expense is typically treated as a cost of goods sold (as it is a “financing business”).

Ownership of storage and logistics infrastructure alongside marketing activities enables grain marketers to reliably source supply, provide customers with consistent quality, manage logistics more effectively and have co-ordinated access to storage facilities. Operation of a global sales and procurement network allows grain marketers to develop stronger relationships with customers, gain market insights, offer alternative supply sources and take advantage of arbitrage opportunities.

Australian Grain Marketing

Exports represent the largest market for Australian grain marketers, followed by livestock feed and domestic manufacturers. Approximately 65% of Australia’s grain production is exported, primarily by global grain marketers. Domestically, grain is marketed either by global grain marketers, local merchants or sold directly by growers to customers.

As domestic consumption accounts for around 50% of eastern Australian grain (compared to 25% in South Australia and 10% in Western Australia), lower volumes of grain are exported from eastern Australia in drought years. However, the profit impact of the decrease in export volume in drought years tends to be offset by higher marketing margins (as grain prices move from export to import parity) and arbitrage opportunities that arise.

As Australian grains are highly sought after in international markets and Australia is located in close proximity to the key growing markets of Asia and the Middle East, Australian based marketers enjoy certain competitive advantages.

Grain marketing in Australia has seen both new entrants and corporate consolidation, particularly since deregulation of wheat exports in July 2008. Global marketers currently operating in the Australian grain market include Glencore, Cargill, GrainCorp, CBH, Olam, privately owned Louis Dreyfus Commodities (“Louis Dreyfus”) and NYSE listed Bunge Limited (“Bunge”). In 2011/12 GrainCorp marketed around 30% of exports from eastern Australia with Cargill and Viterro (now Glencore) accounting for 27% and 16% respectively. GrainCorp also markets around 2.6 mt of grain to the Australian domestic market. Viterro (now Glencore) is estimated to market around 23% of grain produced in South Australia with CBH marketing around 44% of all grain exported from Western Australia.

3.6 Flour Milling

Overview

Flour milling is the process by which wheat (or speciality grains) is ground through a series of mechanical mills into flour. Approximately 1.2 tonnes of wheat is required to produce 1 tonne of flour. The majority of flour produced is for human consumption but it can be further processed into starch and gluten for food and industrial customers. Millers sell flour (or flour pre-mix products) to major independent and multinational food manufacturers, supermarket retailers (in-store bakeries), foodservice operators and distributors.

Flour millers seek to capture a processing margin between wheat prices and flour product prices. Wheat prices are generally based on export parity (except in severe drought conditions) and fluctuate based on the balance between global supply and demand. The ability to manage wheat price risk, minimise freight costs and provide value added and differentiated flour products (such as specialty flours, bakery premixes and semi finished (parbake) bakery products) are important to the profitability of flour millers. Participation in downstream activities also provides millers with insights into customer requirements.

Australian Flour Milling

The Australian flour milling industry consumed around 2.5 mt of grain in 2011/12 representing around 14% of average wheat production over the last five years and 40% of domestic consumption.

Approximately 95% of flour produced is consumed domestically with small quantities of flour exported to New Zealand and other Asia Pacific countries. Demand for flour has been relatively steady, growing modestly at around 0.8% per annum, reflecting the net impact of population growth and a decline in per capita consumption. Similar growth is expected in 2012/13.

The Australian flour milling industry is dominated by three companies: Allied Mills, Manildra Milling and Weston Milling. Together these millers produce around 90% of all flour for human consumption in Australia:

Major Australian Flour Millers			
Company	Activities	Number of Mills	Market Share ²³
Allied Mills ²⁴	Flour miller, focus on premixes and semi finished bakery products	7	45%
Weston Milling ²⁵	Integrated miller, focus on fresh bread	5	20%
Manildra Milling ²⁶	Integrated miller, focus on industrial flours and ethanol	3	25%
Total			90%

Source: Company websites

The major millers are all located in close proximity to the majority of the food processing industry (i.e. in Victoria and New South Wales) with operations in each major city and are supported by extensive distribution networks. Both Allied Mills and Weston Milling operate national distribution networks while Manildra Milling focuses on the east coast market.

Weston Milling and Manildra Milling purchase wheat from grain marketers (including GrainCorp) whereas Allied Mills purchases most of its wheat requirements from its owners, GrainCorp and Cargill.

Each of the major millers is involved in downstream activities. Allied Mills produces flour and manufactures products such as bakery premixes and semi finished bakery products for sale to

²³ Share of market for flour for human consumption.

²⁴ A 60:40 joint venture between GrainCorp and Cargill.

²⁵ Wholly owned by London stock exchange listed company, Associated British Foods plc.

²⁶ Wholly owned by privately owned Manildra Group.

external customers. Allied also recently acquired the assets of Grain Products Australia and now manufactures starch, gluten and other related products. Weston Milling is an integrated flour miller and consumes most of the flour it produces in the manufacture of bread and bakery products. Manildra is also an integrated flour miller but is focused on flours for industrial use (e.g. ethanol and starch).

3.7 Malt Processing

Overview

Malting is the process by which grain, most commonly malting barley, is converted into malt. Malt is used in the production of beer, distilled spirits (e.g. malt whisky) and various food products (including breakfast cereals, confectionary, baked goods and soft drinks). The by-products of the malting process are used in the livestock feed industry.

The malting process consists of five steps completed over six to seven days:

- **Grading:** the grain is cleaned to remove thin kernels and foreign matters;
- **Steeping:** whereby the grain is immersed in water to encourage germination. During steeping the moisture content of the grain is increased from below 14% to around 45%;
- **Germination:** the wetted grain is allowed to germinate under controlled conditions. During this stage, the internal structure of the grain is altered, sugars are produced from the grain's starch store and natural enzymes are developed within the kernel;
- **Kilning:** when sufficient growth has occurred warm air is passed through the grain to halt the growth and to dry the grain to a stable state (typically with a moisture content of between 3% and 6% depending on intended use). During this stage, colour and flavour compounds are formed; and
- **Cleaning and Grading:** the malt is processed to remove the small rootlets that emerge during germination and then cleaned and graded before storage and despatch to customers.

While the malting process is generally automated to ensure consistency of the finished malt, the kilning stage requires skill to produce malt to meet client specifications.

Malt is the primary factor which determines colour and flavour compounds which contribute to the final character of both beer and whisky. Approximately 1.25 tonnes of malting barley is required to produce 1 tonne of malt. Each malting barley variety behaves differently during the malting, brewing and distilling processes and therefore end customers typically specify the variety of malting barley and protein content required. The main requirements for high quality, malting barley are:

- a pure batch of the specified malting barley variety;
- protein content within a specified range (usually 11-12.5%);
- a high germination rate;
- a low moisture content; and
- plump kernels of uniform size to ensure uniform germination and to produce a higher proportion of malt extract.

Consequently, segregation in the handling of malting barley is critical.

Demand for Malt

Approximately 94% of malt produced is consumed in the production of beer, 4% in the production of malt whisky and 2% for other food products. Consequently, demand for malt is driven by trends in global beer consumption and the amount of malt used in the production of beer.



Global beer consumption volume totalled 1.9²⁷ billion hectolitres in 2011. Asia produces around 35% of global beer volume (with Chinese production accounting for 25% of that volume) with the European Union and North America accounting for 20% and 17% respectively. Beer is essentially a local business, with only around 6% of consumption volume represented by imports or brands sold outside their home markets.

Overall, the global beer market has grown by around 3% per annum since 2000. Growth has been driven by increased consumption in developing markets such as Africa, Latin America, China and India (5.5% per annum since 2000) although per capita consumption is still relatively low (albeit growing) in these regions. In contrast, growth in the mature markets of North America, Europe and Australasia has been relatively flat (increasing by an average of 0.9% since 2000) primarily due to declining per capita consumption.

Global beer consumption is forecast to grow at an average rate of 2% per annum to 2.2 billion hectolitres by 31 December 2016, reflecting strong growth in the developing markets (in the range 3-5% per annum) which will be partially offset by declining volumes in the mature markets²⁸. China is the largest beer market in the world by volume and also one of the fastest growing. Strong volume growth is also expected in India, Africa and Latin America as a result of increasing incomes.

The global beer industry has undergone significant consolidation over the last decade. The top four global brewers (Anheuser-Busch InBev N.V., SAB Miller plc., Heineken N.V. and Carlsberg A/S) now account for approximately 50%²⁹ of global production, operating breweries in multiple locations around the world. While these brewers dominate the industry and have a major impact on the demand for malt, there are a large number of regional brewers and there has been strong growth in the craft beer segment in North America³⁰, the United Kingdom and Australasia³¹.

The average amount of malt used in beer production varies considerably by brewery and by region. A range of factors have reduced the amount of malt required for beer production including changing consumer preferences, product trends towards less malt intensive, light or low carbohydrate beers, increased production yields and efficiency and increased substitution of malt with lower cost unmalted grains or other products (e.g. sugar, corn or rice). The malt inclusion rate in the mainstream beer segment has declined by around 1% per annum in the last decade although the decline is expected to slow. Although craft beer is a relatively small part of the beer market, this segment is important to the malt industry due to generally higher malt inclusion rates, the malt requirement being of a higher quality (e.g. a preference for barley from a particular region or for malt to be roasted) and a demand for specialty malts (e.g. wheat malt and organic malt). Therefore, overall growth in the demand for malt is expected to be slightly lower than growth in global beer consumption.

The global whisky industry has limited impact on the overall demand for malt relative to the beer industry due to lower production volumes and because malt is not used in the production of all whisky. The main uses of malt for distilling are for Scotch, Japanese and Irish malt whiskies with other whiskies produced using corn, rye, wheat or molasses or a blend of barley and other grains. Scotch whisky has an estimated 60% share of the global whisky market and Japanese and Irish whisky account for around 5% and 3%, respectively. Together, Scotch, Japanese and Irish malt whisky account for around 35% of total whisky production (as only approximately 45% of Scotch whisky is malt based).

Production decisions (including malt requirement) for Scotch whisky are based on demand expectations several years in the future and, although displaying a cyclical trend, production volumes for Scotch malt whisky have increased since 1980 at an average annual growth rate of

²⁷ Barth-Haas Group, cited by e-malt.com

²⁸ Canadean Limited, cited by e-malt.com

²⁹ Source: company annual reports for 2012, except for SAB Miller where production is for the 12 months ended 31 March 2013. Includes full year sales for Grupo Modelo which has been acquired by Anheuser-Busch InBev N.V.

³⁰ Brewers Association, cited by e-malt.com. There were 2,347 craft breweries operating in the United States in 2012.

³¹ Although craft brewers in Australia have for the most part been acquired by global brewers.



1.8%³². Given its global sales level relative to domestic beer production, Scotch whisky industry can influence malt production in the United Kingdom.

Supply of Malt

Approximately 21.5 mt of malt is produced globally each year. The major malt producing regions are the European Union (in particular, Germany and France), China, North America and Australia. These regions are located in close proximity to barley growing regions. China also imports malting barley to supplement its local barley production (around 42% of global malting barley imports).

The supply of malt is influenced by the global supply of barley suitable for the production of malt and the availability of malt production capacity:

■ **Malting Barley Supply**

Approximately 134 mtpa of barley is produced globally of which 60% is grown in Europe, North America and Australia. The six largest producers (Ukraine, Germany, France, Australia, Spain and Canada) accounted for 42% of barley production in 2011/12. The largest exporters of malting barley are Australia (30%), Canada (27%) and the European Union (21%).

Not all barley is suitable for malting. Malting barley requires lower protein content, as well as other attributes, for which a premium price is paid. The main factors that determine the availability of malting barley in any given season are:

- **global barley production:** which is dependent on:
 - the total hectares planted with barley each year. The area dedicated to growing barley globally has been in steady decline for the last 30 years, declining by an average of 2% per annum from 2003/04 to 2011/12 to 50 million hectares. This decline reflects the shift to crops with higher yields (including genetically modified crops) or which are expected to have a higher value per harvested tonne (such as corn for biofuels); and
 - the annual yield of the barley crop which can vary considerably from year to year, primarily as a result of weather conditions.

Over the last 20 years, the global volume of barley produced has declined by 1% per annum. Despite expected larger crops in the European Union and the United States, world production is forecast to fall by 3% in 2012/13 to around 130 mt due to lower production in Russia, the Ukraine, Eastern Europe and Australia with carryover stock projected to decline for a third consecutive year before increasing by 6% in 2013/14 due to stronger demand for both malt and feed barley. Reduced availability is expected to cap global demand for barley and global barley trade is forecast to decline 10% in 2012/13 then remain flat in 2013/14 at slightly above average levels. In the period to 2021/22, barley production is projected to increase by 1.9% per annum and barley trade is expected increase by 3.3% per annum; and

- **the proportion of the barley harvest suitable for malt production:** On average, around 30% of barley produced globally (and 22% of barley traded) is suitable for malting. Overall, a greater proportion of Australian barley is used for malting (around 25-35%) compared to barley produced in the European Union (around 25-30%) and Canada (around 20-30%).

Globally, the proportion of barley suitable for malting has increased only slightly over time and has been relatively stable. However, within producing regions the proportion of malting barley produced fluctuates as a result of weather and planting decisions as impacted by contract growing with maltsters. Modest regional fluctuations can significantly impact the amount of malting barley available for export from a region.

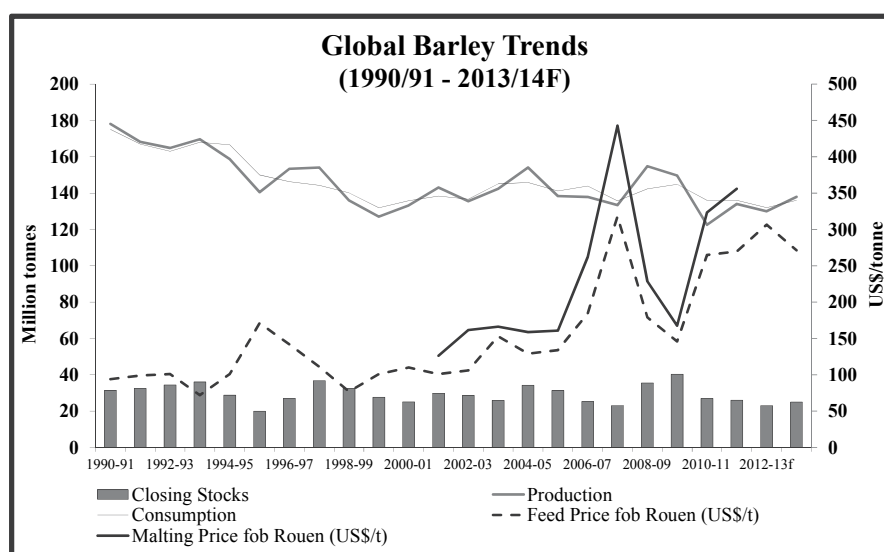
³² Scotch Whisky Association

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Malting barley trades at a premium compared with feed barley prices (which usually depend on the price of substitute livestock feed) as the seeds and fertilisers tend to be more expensive and the yields lower. Therefore, the proportion of malting barley varieties planted annually may be impacted by the expected feed barley price. In this regard, the recent increase in feed barley prices as a result of reduced livestock feed grains and oilseed production due to drought conditions in the United States during 2012 has reduced the premium for malting barley which may result in lower malting barley planting in 2013 (and potentially higher malting barley prices in due course).

The interaction of variations in these factors is complex and can lead to significant movements in the price and availability of malting barley as depicted in the graph below:



Source: International Grains Council

Note: Feed and malting barley prices are often quoted as free on board ("fob") at Rouen, France. Prices are nominal. Malting barley prices are not available prior to 2001/02

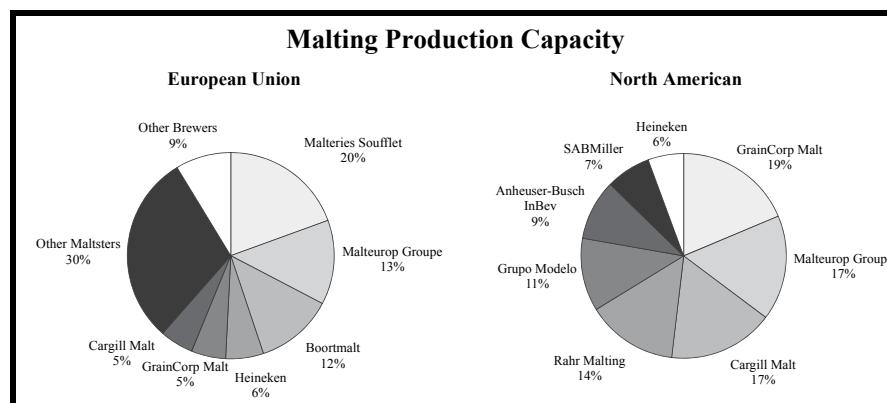
■ Production Capacity

Production capacity of the global malting industry is estimated to be 24 mtpa, of which 9.5 mtpa is located in the European Union, 3.9 mtpa is located in China, 3.6 mtpa in North America, 2.3 mtpa in South America and 0.9 mtpa in Australia. Around 75% of total capacity is owned by commercial, independent maltsters, with the balance integrated into end user operations, primarily brewers. The four largest producers (Malteurop Groupe³³, Malteries Soufflet³⁴, Cargill Malt¹⁴ and GrainCorp Malt) account for 30% of global malt production capacity.

Ownership of malt production capacity in the European Union and North America can be summarised as follows:

³³ Wholly owned by Siclaé, a French agri-industrial group which is 81.03% owned by farming co-operatives.

³⁴ Wholly owned by Soufflet Groupe, a privately owned French agribusiness group.



Source: First Key Consulting Inc. and Euromalt

There are more than 100 commercial maltsters in the European Union which together comprise 87% of European Union capacity (or 8.3 mtpa). Each of the major global maltsters is represented as well as major European based producers (e.g. Malteries Soufflet³⁵ and Boortmalt³⁶). Outside the large maltsters, the market is highly fragmented with a large number of family owned businesses. Other than Heineken N.V., brewers are not strongly represented and generally purchase malt from commercial maltsters.

Commercial maltsters make up around 66% of North American malting capacity (or 2.4 mtpa) and include major global producers (Malteurop Groupe, Cargill Malt and GrainCorp Malt) and Rahr Malting Company³⁷ which operates exclusively in North America. Brewers have a greater presence in malt production in North America with three of the largest global brewers as well as Mexican brewer, Grupo Modelo S.A.B de C.V.³⁸ controlling around 33% of total capacity. It is estimated that Rahr Malting and GrainCorp Malt account for around 85% of the bagged warehouse malt supply market which services the craft beer segment. The other large maltsters do not generally target the craft beer segment.

Commercial maltsters make up around 87% of Chinese malting capacity (or 3.8 mtpa) and comprise Chinese based companies (e.g. Supertime Malt, Cofco Malt and Longken Malt) which operate exclusively in China. Similarly, Chinese brewers (such as Tsingtao Brewery and Yanjing Brewery) operate exclusively in the Chinese malting industry.

The Australian malting market comprises three commercial maltsters, Joe White Malting³⁹ (61% market share), GrainCorp Malt (27%) and Malteurop Groupe (12%). Brewers do not engage in malting in Australia.

Of the 21.5 mt of malt produced each year, around 6 mt is exported. The majority of export volumes originate from the European Union (48% of exports), North America (20%), Australia (11%) and Argentina (10%) with Asia (35%), Latin America (34%) and Africa (16%) being the main importers. In particular, Brazil accounts for 18% of imports and Japan accounts for 11% of imports. China does not import substantial quantities of malt and most malt produced is consumed in its domestic market. South American brewers are generally supplied by the European Union and North America, Africa is supplied by the European Union and Asia is supplied by both Australia and the European Union.

³⁵ Malteries Soufflet has historically only produced malt in Europe but recently expanded into Brazil.

³⁶ Wholly owned by Group Axereal, a French agricultural and agribusiness co-operative.

³⁷ A privately owned United States company.

³⁸ Mexican listed company which is 50.3% owned by Anheuser-Busch InBev N.V. On 29 June 2012 it was announced that the companies are to merge and the transaction is due to complete in June 2013.

³⁹ Wholly owned subsidiary of Glencore.



Since 2009, global malting capacity has decreased by around 0.5 mt with major declines in North America (0.4 mtpa) and Europe (0.1 mtpa) partially offset by increases in Australia (0.1 mtpa). As a result, industry capacity utilisation increased to around 90% in 2012. Forecast capacity additions are expected to return capacity to around 2009 levels (i.e. 24.5 mtpa). With global demand for malt expected to continue to increase, capacity constraints are likely to emerge over the next few years.

Industry economics

Malt producers seek to capture a conversion margin between barley prices and malt. Critical to maximising this margin is the ability to manage barley and malt price risk and minimise freight costs.

Strategies to manage price risk include:

- gaining market insights on malting barley supply on a timely basis and adopting appropriate hedging strategies. This insight is enhanced for the large producers by their presence across the major barley producing regions and their ability to service the major global brewers;
- managing the timing of barley purchases. Most maltsters have storage capacity which allows them to accumulate barley (although malting barley is generally stored for no more than 15 months in order to maintain quality) to capture higher margins; and
- developing closer relationships with growers to ensure access to high quality malting barley on a consistent basis.

The cost of freight is minimised by locating malting plants in barley growing regions and with direct access to rail and port services. In this regard, the trend to increased global consolidation assists in obtaining competitive freight rates and enables maltsters to ship malt over shorter distances as well as providing a natural hedge against fluctuations in barley production.

Malt producers also seek to enhance the conversion margin by offering value added products to niche markets (e.g. craft beer or whisky). Customers in niche markets have a greater focus on malt quality and product specification than global brewers and, although the cost to service is higher (e.g. smaller order sizes), margins obtained by the maltsters are generally higher.

High levels of capacity utilisation and market growth fundamentals suggest that malting margins will increase in the future, at least until additional capacity is built. As a consequence, there has been a trend for larger customers to seek longer term malting supply arrangements. While this may at times cap the margin available to the maltster, such arrangements should also provide a floor to the conversion margin.

3.8 Oilseed Processing

Overview

Organic fats and oils are broadly categorised as either vegetable or animal based. Vegetable fats and oils include those produced from oilseeds, commonly referred to as soft oils, (e.g. canola, soybean, sunflower and cottonseed), palm oil and olive oil. Animal fats and oils include those produced by rendering tissue fats obtained from livestock (e.g. tallow, fish oil) or from dairy products (e.g. cheese and butter). Fats are solid at room temperature while oils are liquid at room temperature. Organic fats and oils may be used for human consumption (e.g. cooking oil, ingredients in spreads, shortening and prepared foods), commonly referred to as edible oils and fats, or used in industrial applications (e.g. cosmetics, lubricants, fuels).

Global consumption of vegetable fats and oils has increased by around 5% per annum over the last decade, mainly as a result of increased food consumption (reflecting population growth and per capita income growth, particularly in developing countries) and use as biodiesel. Consumption is expected to increase at a lower rate of 2% per annum to 2020/21 with approximately two thirds of the increase from food consumption and the balance from biodiesel. Soft oils account for around



60% of all vegetable fats and oils consumed (due to greater health consciousness of consumers) with canola oil representing around 30% of that consumption.

The production of fats and oils from oilseeds encompasses:

- **Crushing:** which involves the separation of oilseeds into crude oil and protein meal. The ratio of oil and protein meal produced depends on the type of seed used, but for canola is around 40% oil to 60% meal. Crude oil may be stored in bulk liquid terminals and sold to domestic or export oil refiners for human consumption or for industrial applications. Protein meal produced is sold as livestock feed; and
- **Refining:** which involves the removal of free fatty acids, phospholipids and colour bodies from the crude oil and typically involves chemical or physical refining, bleaching and deodorising. The properties of the oil produced (e.g. melting point and shelf life) may also be adjusted. Refined oils may be stored in bulk liquid terminals but, due to instability of the specific properties of the oil produced, are more likely to be made to order for domestic customers.

Refined fats and oils may be sold in bulk (e.g. to major food manufacturers), packaged in large packages (e.g. for the food service industry) or packaged in retail packs (e.g. bottled oils for supermarkets) and may also be blended with other ingredients to create end products (e.g. margarine). The ability to offer a range of products and to produce to customer specification is an important competitive advantage in securing long term contracts.

Bulk liquid terminals and storage capacity for export or domestic consumption is an important element of the oilseeds business. Bulk liquid storage facilities handle and store both organic oils and inorganic oils and liquids such as chemicals or petroleum. Tank sizes can vary greatly in capacity from 2m³ to over 30,000m³.⁴⁰ Operators generate revenue from leasing storage tanks to external customers (typically on an annual or multi-year basis) as well as from the provision of ancillary services such as product transfer (throughput), road cartage and product blending and packaging. Pricing for storage and other services typically reflect local supply and demand as well as the specific attributes of each terminal including access to deep water berths and connections to other infrastructure such as roads, pipelines and rail. Storage capacity and capacity utilisation are important drivers of earnings.

Australian Demand for Soft Oils

Australia consumes almost 0.7 mt of vegetable fats and oils annually, primarily in edible applications. Soft oils account for over 50% of the Australian vegetable fats and oils market. Australian consumption of vegetable fats and oils has increased rapidly (by 7% per annum) over the last decade but growth is expected to slow to around 2% per annum in the period to 2020/21. The key markets for vegetable fats and oils in Australia are food production (37%), retail (35% of consumption) and food service (28%). Biodiesel is not currently a major market for vegetable fats and oils in Australia.

Approximately 0.3 mtpa (43%) of Australian consumption of vegetable fats and oils is met by imports including palm oil (from Malaysia), soybean and sunflower oil (South America), olive oil (European Union) and specialty products such as coconut oil (Malaysia). The balance of demand (0.4 mtpa) is met by locally produced vegetable oils (of which around 70% is consumed domestically and the balance exported). The major locally produced vegetable oil is canola oil (30%). Of the 0.3 mtpa produced, 0.2 mtpa is consumed domestically and 0.1 mtpa exported. Canola oil represents almost 100% of soft oil exports from Australia (4% of global canola oil trade). The other main locally produced and consumed oil is cottonseed oil.

⁴⁰ m³ = cubic metres



Australian Oilseed Supply and Processing

Oilseed production in Australia has grown significantly over the last decade in response to global demand growth (reaching 5 mt in 2011/12 as a result of higher rainfall). Canola seed represented around 62% of 2011/12 oilseed production with the balance being cottonseed (34%) and other oilseeds such as soybeans and sunflower seed (4%). Small quantities of minor oilseeds such as safflower and linseed are also grown.

The area planted with oilseeds has increased by an average of around 3% per annum over the last decade as planting has extended north and the density in south eastern Australia has increased. The area planted fluctuates as crops are rotated and due to price movements. Yield varies from year to year, but overall has not increased since the mid 1980s.

The 2012/13 oilseed crop is expected to be 4.6 mt (around 33% greater than the average for the last decade) with canola expected to be around 3.1 mt. The 2013/14 oilseed crop is forecast to be 4.4 mt (including 2.9 mt of canola). Growth in oilseed production is expected to moderate to around 1.5% per annum to 2017/18. Except for cottonseed, Australian oilseeds are not genetically modified. Should the current prohibition on genetically modified food crops be lifted, production of genetically modified canola has the potential to substantially increase yield.

Around 1.2 mtpa of oilseeds are currently crushed in Australia with the remainder of the Australian oilseed crop exported to the Netherlands, Belgium, Pakistan and Japan for crushing. The oil content of Australia's canola crop has been steadily improving due to selection of higher oil and protein content varieties and varieties that mature earlier.

The 1.2 mt of oilseeds crushed each year produces 0.4 mt of oil and 0.8 mt of protein meal. Vegetable oil production has increased by 8.2% per annum over the last decade, but is expected to moderate to around 2.3% per annum to reach 0.6 mt in 2020/21, with similar growth expected for protein meal. Canola accounts for approximately 50% of the oilseeds crushed. Most crushing capacity is located in Victoria and New South Wales near the canola growing regions, Australia's food processing industry and major bulk liquid terminals for export.

Australia has around 1.2 mtpa of crushing capacity at eight plants. The major oilseed crushers are Cargill and GrainCorp's Riverland Oilseeds which together account for around 80% of Australian crushing capacity. Riverland Oilseeds operates three canola crushing plants with more than 300 kt⁴¹ of capacity. Cargill operates three plants which crush around 700 kt of oilseeds per annum (with similar canola crushing capacity to that of Riverland Oilseeds). The canola crushing industry is at close to full utilisation. Riverina Oils & Bio Energy Pty Ltd ("ROBE") commissioned a new 150 kt crushing and refining plant at Wagga Wagga in New South Wales in November 2012 to service the export markets.

Australian Edible Oil Refining

Australia has around 600 kt of edible oil refining capacity (excluding refining capacity recently constructed by ROBE). GrainCorp's Integro Foods is the largest market participant with 280 kt of refining capacity producing around 230 kt of oil (approximately 40% market share of production). Privately owned Peerless Foods has around 170 kt of refining capacity but does not have crushing capacity. Cargill has 150 kt of refining capacity which was commissioned at its existing Newcastle oilseed crushing plant in 2007. Integro Foods, Peerless Foods and Cargill all provide product to the food manufacture, food service and retail market segments. Smaller oil refining participants include Mac-Smith Manildra (which markets edible oils under "The Healthy Baker" brand) and Atlantic Pacific Foods Pty Ltd (which markets a range of retail fats and oil products under the "Harvest Award" brand).

⁴¹ kt = thousand tonnes.



Australian Protein Meal

Protein meal consumption in Australia is 1.4 mtpa, primarily comprising soy meal (40%) and canola meal (30%) as well as smaller quantities of cottonseed meal and linseed meal. Each type of protein meal is relatively easily substitutable with other meals as well as coarse grains and grass. Canola meal consumption in Australia has increased by over 5% per annum since 2005/06 to 0.4 mt in 2011/12 and is mainly used for poultry production (35% of 2011/12 consumption), the dairy industry (26%) and the pork industry (19%). Strong growth of around 11% per annum is expected to 2016/17 for canola meal primarily as a result of growth in demand from the dairy industry (canola meal has been found to substantially increase milk production). By 2016/17, the dairy industry is expected to represent 51% of demand for canola meal.

Australia produces around 60% of its protein meal requirement with the balance imported (mainly in the form of soy meal). There are a range of substitutes for canola meal (e.g. soy meal) and customers are generally price sensitive, however, dairy industry consumption is less price elastic. The large New Zealand dairy industry represents a potential market for Australian produced canola meal.

The major producers of protein meal in Australia are also the largest crushers of oilseeds (Riverland Oilseeds and Cargill) but they compete with soy meal imports and other feed substitutes. Protein meal is sold to local manufacturers and distributors of animal feed products including Ridley Corporation Limited, Castlegate James Australia Pty Ltd, QAF Limited and dairy producers.

3.9 Australasian Bulk Liquid Storage

Australasia has independent commercial bulk liquid storage capacity (i.e. excluding bulk liquid facilities owned and operated by petroleum and chemical companies) of around 1.2 million m³, of which 10-15% is used for the import and export of edible oils. There are 35 bulk liquid export terminals, 19 in Australia and 16 in New Zealand:

Major Australian and New Zealand Bulk Liquid Storage Facilities				
Company	Activities	Number of Terminals		Storage Capacity ('000 m ³)
		Australia	New Zealand	
Pacific Terminals	Independent, 20% internal utilisation	7	5	215
Terminals Pty Ltd	Independent local operator	4 ⁴²	-	153
Stolthaven	Independent global operator	4 ⁴³	5	155
Vopak	Independent global operator	2	-	558
Anchortank	Independent local operator	2	-	10
Bulk Storage Terminals	Independent local operator	-	4	43
Liqueo Bulk Storage	Independent local operator	-	2	20
Total		19⁴⁴	16	1,154

Source: Company websites

GrainCorp's Pacific Terminals handles around 50% of Australia and New Zealand's fats and oils imports and exports. The other major bulk liquid storage providers are privately owned Australian and New Zealand based operator, Terminals Pty Ltd as well as Stolthaven Australasia Pty Limited ("Stolthaven") and Vopak Terminals Australia Pty Limited (Vopak"), both of which are wholly owned subsidiaries of global bulk liquid storage companies. Other bulk liquid facilities are operated by petroleum and chemical companies. Only Pacific Terminals and Cargill store internally produced vegetable fats and oils.

⁴² Excluding second Adelaide facility currently under construction.

⁴³ Excluding Newcastle facility currently under construction.

⁴⁴ Cargill also operates a 9,000m³ bulk liquid storage terminal at its Newcastle oilseed crushing and refining plant.

3.10 Supply Chain Integration

Since the 1960s the global grains industry (in line with the wider agriculture sector) has witnessed:

- consolidation (and increased scale) both at farm level and along the supply chain;
- increased crop yields and industry productivity;
- deregulation of, and increased integration along, the supply chain;
- increased diversification across commodities, geographies and businesses; and
- increased participation of large scale corporates.

The commercial and financial benefits of these trends for industry participants include more efficient use of capital, increased productivity, cost efficiency and economies of scale, reduced earnings variability and an enhanced ability to service customers. Specifically, the benefits gained from:

- end to end integration of supply chain logistics include better control and efficiency, greater reliability and increased flexibility in the supply chain;
- increased geographic and commodity diversity include lower economic dependency and better access to product across regions;
- ownership of extensive storage and logistics networks in addition to marketing activities include:
 - greater insight into grain origination;
 - increased reliability in sourcing grain for customers of a consistent quality; and
 - the ability to accumulate and store grain and to finance it so as to better manage the timing of sales;
- an extensive sales and procurement network (both domestically and globally) include:
 - the ability to provide growers with insight to changes in the end user market for grains and to provide end users with insight into changes in grain supply enabling both to better respond to changing market conditions;
 - stronger customer relationships;
 - protection against supply disruption; and
 - market insights to assist in making trading decisions and to take advantage of arbitrage opportunities.
- participation in grain processing (e.g. flour milling, malting, oilseed crushing and refining) enables additional value to be captured (i.e. the conversion margin) and improvement in the understanding of grain customer requirements. Furthermore, grain handlers and marketers have a competitive advantage relative to non integrated processors through:
 - insight into grain quality and origination which improves the management of input costs and commodity risk;
 - the minimisation of supply chain costs; and
 - a greater ability to fund grain inventory.

Internationally, identification of these benefits resulted in the development of integrated business models from the 1970s. However, integration in the Australian grain supply chain is a more recent phenomenon due to a history of sector regulation and government ownership of infrastructure.

Privatisation and deregulation in Australia since the late 1980's has resulted in sector consolidation and new market participants. However, it was the abolition of the "single desk" for Australian wheat exports in July 2008 that enabled companies to fully participate across the entire grain supply chain. As a consequence, a number of international agricultural commodity handling and marketing companies (such as Glencore, Cargill, Agrium Inc., Sumitomo Corporation) have established positions in the Australian grains industry and local companies such as GrainCorp and CBH have extended their activities beyond traditional bulk handling. Some of these companies have expanded into domestic processing (e.g. Cargill and GrainCorp in flour milling and oilseed crushing and refining and Glencore and GrainCorp in malting) while others derive similar benefits from the range of commodities, geographies and businesses in which they operate internationally.

4 Profile of GrainCorp Limited

4.1 Background

The New South Wales Grain Handling Authority (the antecedents of which can be traced to 1916) was corporatised in 1989 and the business was sold to GrainCorp by the New South Wales Government in 1992. At that time, GrainCorp was 100% owned by Grain Growers Association Limited (“GGA”) (known at the time as Prime Wheat Association Limited). Following a corporate restructure in September 1993, GGA was issued Class A shares, Class B shares and a Foundation Share in GrainCorp. Class A shares were also offered to grain growers and other investors. On 30 March 1998, GrainCorp’s Class A shares were listed on the ASX on the condition that shareholders were to vote on the retention of the Foundation Share every five years.

In the following decade, GrainCorp pursued a number of growth initiatives to become the largest provider of grain storage, logistics and port services in eastern Australia including:

- the October 2000 merger with Victorian Grain Services Limited, a grower owned organisation which owned a 75% interest in Vicgrain Limited, a Victorian bulk grain storage and handling operator (the remaining 25% of Vicgrain was owned by GrainCorp); and
- the acquisition in October 2003 of Grainco Australia Limited, a Queensland based bulk commodity, logistics and marketing group with a focus on grains, oilseeds and pulses.

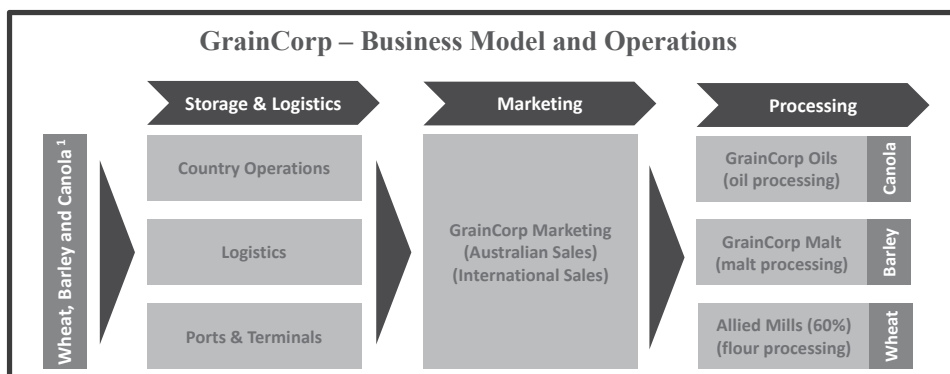
GrainCorp’s structure was also simplified by the cancellation of GGA’s Class B shares in August 2001 and shareholders voting against retention of the Foundation Share in February 2008.

The deregulation of Australian wheat exports in July 2008 provided the opportunity for GrainCorp to extend its services to international consumers enabling it to capture additional earnings from international marketing, management of rail haulage services and value added grain handling services. GrainCorp has also sought to add value to grain and reduce earnings variability by extending into downstream processing activities. To this end, GrainCorp has established:

- Allied Mills in October 2002 (a 60:40 joint venture with Cargill) to acquire the flour milling and mixing assets of Goodman Fielder Limited (“Goodman Fielder”);
- GrainCorp Malt in November 2009 following the acquisition of United Malt Holdings, the fourth largest commercial malt manufacturer globally. This business has expanded both organically and by acquisition (e.g. Brewcraft in 2010 and Kirin Australia Malt House and Schill Malz in 2011); and
- GrainCorp Oils in October 2012 following the separate acquisitions of the privately owned Gardner Smith Group and Goodman Fielder’s Integro Foods.

Today, GrainCorp is an ASX 100 company and, prior to the trading halt on 19 October 2012 as a consequence of ADM’s initial proposal, had a market capitalisation of approximately \$2 billion.

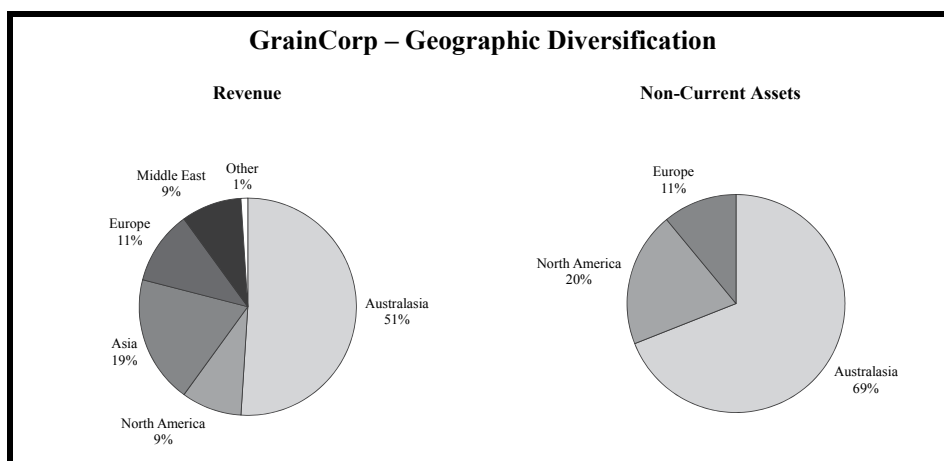
GrainCorp operates an integrated “end to end” grains business involved in handling, marketing and processing. Its operations are focussed on the three dry climate grains (wheat, barley and canola) in Australasia, North America and Europe. GrainCorp’s business model and descriptions of its business units are set out in detail in Section 5 of this report and summarised below:



Source: GrainCorp

Note 1: GrainCorp also handles and markets other grains (e.g. sorghum and pulses) and handles non-grain commodities.

Importantly, today a substantial proportion of GrainCorp's operations are international:



Source: GrainCorp

4.2 Financial Performance

GrainCorp's earnings have grown substantially in the last five years both organically and by acquisition (funded by a combination of equity and debt). Historically, GrainCorp's earnings have fluctuated with the level of the grain harvest in eastern Australia but the level of variability has reduced over time as GrainCorp has extended into downstream processing. The reported financial performance of GrainCorp for the five and a half years ended 31 March 2013 is summarised below:

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GrainCorp - Financial Performance as Reported (\$ millions)						
	Year ended 30 September					Six months ended 31 March 2013 ⁴⁵
	2008	2009	2010 ⁴⁶	2011	2012	
Sales revenue ⁴⁷	1,534.2	1,660.5	1,989.9	2,776.8	3,329.4	2,361.3
EBITDA ⁴⁸	40.7	171.9	202.8	341.1	403.7	222.2
Depreciation and amortisation	(40.1)	(42.3)	(71.5)	(78.5)	(91.1)	(56.1)
EBIT ⁴⁹	0.6	129.6	131.3	262.6	312.6	166.1
Net interest expense ⁵⁰	(47.0)	(32.0)	(20.7)	(25.6)	(31.3)	(20.2)
Share of net profits of equity accounted investments	10.6	9.8	9.4	8.5	15.4 ⁵¹	5.2
Operating profit/(loss) before significant items	(35.8)	107.4	120.0	245.5	296.7	151.1
Significant items	-	-	-	-	9.5 ⁵²	(20.1) ⁵³
Operating profit/(loss) before tax	(35.8)	107.4	120.0	245.5	306.2	131.0
Income tax expense	15.9	(28.6)	(39.1)	(73.9)	(101.3)	(42.8)
Loss after tax from discontinued operation ⁵⁴	-	(15.6)	(0.7)	-	-	-
Profit/(loss) after tax attributable to GrainCorp shareholders	(19.9)	63.2	80.2	171.6	204.9	88.2
Statistics						
Basic earnings per share ⁵⁵	(11.4)¢	34.1¢	39.6¢	86.2¢	102.6¢	38.7¢
Dividends per share	-	7.3¢	30.0¢	55.0¢	65.0¢	25.0¢
Dividend payout ratio	-	21%	76%	64%	63%	65%
Amount of dividend franked	-	100%	100%	100%	100%	100%

Source: GrainCorp and Grant Samuel analysis

GrainCorp incurred an operating loss in FY⁵⁶08 following a second season of drought across eastern Australia and therefore did not declare a dividend. Improved seasonal conditions, the move into bulk wheat exports following deregulation in 2008 and significant internal restructuring resulted in a return to profits in FY09. These changes together with the acquisition of United Malt Holdings in October 2009 have resulted in substantial earnings growth for GrainCorp which is expected to continue with the establishment of GrainCorp Oils in October 2012.

Share of net profits of equity accounted investments primarily represents the NPAT⁵⁷ of GrainCorp's 60% interest in Allied Mills.

GrainCorp's current dividend policy is to pay dividends of 40-60% of NPAT through the business cycle. On this basis, GrainCorp paid a dividend of 35 cents per share plus special dividends totalling 30 cents per share (i.e. a total dividend of 65 cents per share) in FY12 and has declared an interim dividend for FY13 of 20 cents per share plus a special dividend of 5 cents per share (i.e. 25 cents per share).

⁴⁵ Includes GrainCorp Oils from 2 October 2012.

⁴⁶ Includes GrainCorp Malt from 13 November 2009 (i.e. 10.5 months).

⁴⁷ Sales revenue includes rental income but excludes discontinued operations in FY09 and FY10.

⁴⁸ EBITDA is earnings before net interest, tax, depreciation and amortisation, share of net profits of equity accounted investments, discontinued operations and significant items.

⁴⁹ EBIT is earnings before net interest, tax, share of net profits of equity accounted investments, discontinued operations and significant items.

⁵⁰ Net interest expense includes interest relating to commodity inventory funding but in FY08 excludes interest income.

⁵¹ Including GrainCorp's share of Allied Mills' insurance claim (\$5.1 million).

⁵² Includes transaction costs (\$7.2 million) and a defined benefit plan adjustment (\$16.8 million).

⁵³ Including transaction and integration costs relating to GrainCorp Oils (\$12.9 million), takeover response costs (\$9 million) and acquisition trade tax and associated income relating to GrainCorp Malt (\$1.8 million).

⁵⁴ During FY10 GrainCorp exited merchandising by selling a number of service centres and redeploying the remaining assets.

⁵⁵ Calculated as profit/(loss) after tax attributable to GrainCorp shareholders divided by the weighted average of ordinary shares on issue during year (i.e. includes significant items and earnings from discontinued operations and excludes potential ordinary shares represented by performance rights).

⁵⁶ FY = financial year ended/ending 30 September 20XX.

⁵⁷ NPAT is net profit after tax.

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Analysis of GrainCorp's operational performance at a consolidated level is made difficult by recent acquisitions and other factors. In order to better analyse GrainCorp's operational performance Grant Samuel has adjusted reported revenue, EBITDA and EBIT to exclude the discontinued operations, other income, amortisation of acquired intangible assets and other non-recurring items recognised in EBIT as follows:

GrainCorp – Adjusted Financial Performance (\$ millions)						
	Year ended 30 September					Six months ended 31 March 2013 ⁴⁵
	2008	2009	2010 ⁴⁶	2011	2012	
Sales revenue	1,534.2	1,660.5	1,989.9	2,776.8	3,329.4	2,361.3
<i>Adjustments:</i>						
Discontinued operations	(90.3)	-	-	-	-	-
Interest income	(4.4)	-	-	-	-	-
Dividends and unallocated income	(0.3)	(0.5)	(0.2)	-	-	-
	(95.0)	(0.5)	(0.2)	-	-	-
Adjusted sales revenue	1,439.2	1,660.0	1,989.7	2,776.8	3,329.4	2,361.3
EBITDA	40.7	171.9	202.8	341.1	403.7	222.2
<i>Adjustments:</i>						
Discontinued operations	(4.0)	-	-	-	-	-
Interest income	(4.4)	-	-	-	-	-
Other income ⁵⁸	(3.0)	(3.5)	(0.2)	-	-	-
Non-recurring items ⁵⁹	-	0.1	(4.2)	(5.2)	(4.8)	(4.0)
	(11.4)	(3.4)	(4.4)	(5.2)	(4.8)	(4.0)
Adjusted EBITDA	29.3	168.5	198.4	335.9	398.9	218.2
Depreciation and amortisation	(40.1)	(42.3)	(71.5)	(78.5)	(91.1)	(56.1)
<i>Adjustments:</i>						
Discontinued operations	1.3	1.1	-	-	-	-
Amortisation of acquired intangible assets	-	-	13.0	12.5	12.6	8.2
Adjusted depreciation and amortisation	(38.8)	(41.2)	(58.5)	(66.0)	(78.5)	(47.9)
Adjusted EBIT	(9.5)	127.3	139.9	269.9	320.4	170.3
<i>Statistics</i>						
Adjusted sales revenue growth	87.9%	15.3%	19.9%	39.6%	19.9%	
Adjusted EBITDA growth	106.0%	475.3%	17.8%	69.3%	18.8%	
Adjusted EBIT growth	(63.4%)	nmf ⁶⁰	9.9%	92.9%	18.7%	
Adjusted EBITDA margin	2.0%	10.1%	10.0%	12.1%	12.0%	9.2%
Adjusted EBIT margin	(0.7%)	7.7%	7.0%	9.7%	9.6%	7.2%

Source: Grant Samuel analysis

Over the past five and a half years revenue and operating earnings have grown substantially reflecting the expansion of GrainCorp Marketing activities, the increasing proportion of total earnings derived from downstream processing activities (GrainCorp Malt and GrainCorp Oils) and the size of recent harvests.

GrainCorp's adjusted financial performance can be analysed by business unit as follows:

⁵⁸ Other income includes dividend income and net gains/(losses) on sale of assets.

⁵⁹ Non recurring items include impairment expense in FY09 and FY10, transaction costs (net) in FY10 and FY11 and compensation received by GrainCorp Malt in the period 2010-2013.

⁶⁰ nmf = not meaningful

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GrainCorp – Adjusted Financial Performance by Business Unit (\$ millions)						
	Year ended 30 September					Six months ended 31 March 2013 ⁴⁵
	2008	2009	2010 ⁴⁶	2011	2012	
Adjusted Sales Revenue						
Storage & Logistics	170.4	418.4	308.6	513.6	535.5	263.9
GrainCorp Marketing	1,268.8	1,241.6	902.5	1,395.4	1,848.8	1,197.4
GrainCorp Malt	-	-	778.6	867.8	945.1	461.0
GrainCorp Oils	-	-	-	-	-	439.0
Corporate	-	-	-	-	-	-
Total	1,439.2	1,660.0	1,989.7	2,776.8	3,329.4	2,361.3
Adjusted EBITDA						
Storage & Logistics	26.1	153.2	73.3	194.7	249.7	119.3
GrainCorp Marketing	27.0	38.6	31.2	70.0	63.1	26.7
GrainCorp Malt	-	-	109.8	91.6	112.3	51.4
GrainCorp Oils	-	-	-	-	-	33.1
Corporate	(23.8)	(23.3)	(15.9)	(20.4)	(26.2)	(12.3)
Total	29.3	168.5	198.4	335.9	398.9	218.2
Adjusted Depreciation and Amortisation						
Storage & Logistics	(37.6)	(39.4)	(41.2)	(46.4)	(53.3)	(25.5)
GrainCorp Marketing	(0.6)	(0.4)	(0.3)	(0.5)	(0.4)	(0.6)
GrainCorp Malt	-	-	(16.7)	(18.7)	(23.9)	(11.9)
GrainCorp Oils	-	-	-	-	-	(9.3)
Corporate	(0.6)	(1.4)	(0.3)	(0.4)	(0.9)	(0.6)
Total	(38.8)	(41.2)	(58.5)	(66.0)	(78.5)	(47.9)
Adjusted EBIT						
Storage & Logistics	(11.5)	113.8	32.1	148.3	196.4	93.8
GrainCorp Marketing	26.4	38.2	30.9	69.5	62.7	26.1
GrainCorp Malt	-	-	93.1	72.9	88.4	39.5
GrainCorp Oils	-	-	-	-	-	23.8
Corporate	(24.4)	(24.7)	(16.2)	(20.8)	(27.1)	(12.9)
Total	(9.5)	127.3	139.9	269.9	320.4	170.3

Source: GrainCorp and Grant Samuel analysis

The operating performance of each of GrainCorp's business units is discussed in Section 5 of this report. The ongoing level of GrainCorp's corporate overheads is discussed in Section 6.10 of this report.

Outlook

GrainCorp has not publicly released earnings forecasts for FY13 or beyond. In order to provide an indication of the expected future financial performance of GrainCorp, Grant Samuel has considered brokers' forecasts for GrainCorp (see Appendix 1) as follows:

GrainCorp – Financial Performance (\$ millions)					
	Year end 30 September				
	2012 as reported (excl. GrainCorp Oils)	2012 pro forma ⁶¹ (incl. GrainCorp Oils)	Broker Forecasts (Median)		
			2013	2014	2015
Sales revenue	3,329.4	4,094.2	3,909.1	3,680.7	3,815.6
EBITDA ⁶²	403.7	467.3	392.2	374.0	383.7
EBIT ⁶²	312.6	356.1	280.6	261.4	264.0
NPAT	204.9		176.5	157.5	164.2
Earnings per share	102.6¢		76.9¢	68.8¢	71.7¢
Dividends per share	65.0¢		50.0¢	40.0¢	40.0¢

Source: Grant Samuel analysis (see Appendix 1).

⁶¹ Aggregate of pro forma FY12 for GrainCorp Oils (see Section 5.5) and GrainCorp's reported FY12 results (i.e. excluding any acquisition or consolidation adjustments).

⁶² EBITDA and EBIT are before share of net profits of associates and interest expense for commodity inventory funding.



The consensus estimates are based on forecasts by the ten analysts that updated their forecasts after the half year results to 31 March 2013.

Notwithstanding the diversification into downstream processing and moves to increase the variabilisation of operating costs, the earnings outlook for GrainCorp remains heavily influenced by the anticipated harvest levels in eastern Australia and carry-in grain volumes. The broker forecasts for FY13 include a full year's contribution from GrainCorp Oils and reflect the benefit of the relatively high carry-in grain volumes in FY13. The FY13 forecasts also reflect the (largely complete) 2012/13 crop which was at or around "normal" levels, well below the near record harvests of the last two years. Accordingly, earnings are forecast to decline from their peak in FY11 and FY12 (adjusting for GrainCorp Oils).

The broker forecasts for FY14 show a further decline in earnings with a forecast decline in carry-in grain volumes. This decline is partly offset by initial earnings contributions from GrainCorp's portfolio of development initiatives (see Section 5) across its various businesses although it is unclear exactly how much of this has been factored into the consensus forecasts. The realisation of further benefits in FY15 drives some improvement in the broker forecasts of earnings in that year. However, it appears that, at this stage, analysts are adopting a "wait and see" approach and are not yet factoring in the full extent of benefits of the development initiatives of around \$110 million per annum in EBITDA anticipated by GrainCorp (see Section 5.1).

4.3 Financial Position

The actual and pro forma financial position of GrainCorp as at 30 September 2012 and the financial position at 31 March 2013 is summarised below:

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GrainCorp - Financial Position (\$ millions)			
	As at		
	30 September 2012		31 March 2013
	Actual	Pro forma ⁶³	Actual
Debtors, prepayments and current derivative financial instruments (net) ⁶⁴	400.7		551.8
Inventories ⁶⁵	551.5		831.8
Creditors, accruals and provisions	(387.3)		(448.7)
Net working capital	564.9⁶⁶		934.9
Property, plant and equipment (net)	872.2		1,128.8
Goodwill	275.9		367.4
Other intangibles (net)	94.9		110.2
Investment in equity accounted associates	139.4		144.7
Loans to equity accounted associates	20.0		19.8
Investment in other entities	1.5		1.7
Assets held for sale	7.6		5.5
Tax deferred liabilities (net)	(49.6)		(43.9)
Other non-current liabilities	(19.8)		(20.8)
Retirement benefit obligations	(37.3)		(33.7)
Total funds employed	1,869.6	2,364.1	2,614.6
Cash and deposits	350.3 ⁶⁷	254.0	221.7
Borrowings (including interest rate swap contracts)	(679.4)	(911.4)	(1,135.1)
Net borrowings	(329.1)	(657.1)	(913.4)
Net assets attributable to GrainCorp shareholders	1,540.5	1,707.0	1,701.2
Statistics			
Number of issued shares ⁶⁸ (millions)	210.5	228.9	228.9
Net assets per share	\$7.32	\$7.46	\$7.43
NTA ⁶⁹ per share	\$5.56		\$5.35
Statutory gearing ⁷⁰	17.6%	27.8%	34.9%
Core gearing ⁷¹	1.1%	15.8%	19.7%

Source: GrainCorp and Grant Samuel analysis

Goodwill primarily relates to the acquisition of United Malt Holdings in November 2009 and Gardner Smith Group and Integro Foods (to create GrainCorp Oils) in October 2012. Other intangibles (net) are trade names and customer relationships (primarily relating to United Malt Holdings) and computer software.

⁶³ The pro forma financial position reflects the acquisition of Gardner Smith Group and Integro Foods on 2 October 2012 to create GrainCorp Oils. GrainCorp funded the acquisitions by the issue of shares to the vendors of Gardner Smith Group, an underwritten entitlement offer (the institutional portion of which was completed before 30 September 2012) and an acquisition debt facility.

⁶⁴ Including margin deposits with MF Global Australia, the parent company of which filed for Chapter 11 bankruptcy protection in the United States in October 2011. Since 30 September 2012 GrainCorp has received around \$26 million of the outstanding balance and at 31 March 2013 \$2.5 million was recognised as receivable. GrainCorp expects to receive the outstanding amount during FY13.

⁶⁵ At 30 September 2012 inventories included \$312 million of GrainCorp Marketing grain inventory of which \$287.1 million has been pledged as security for commodity inventory funding. At 31 March 2013 inventories included \$497.8 million of GrainCorp Marketing grain inventory and GrainCorp Oils oilseed inventory of which \$458.4 million has been pledged as security for commodity inventory funding.

⁶⁶ Net working capital at 30 September 2012 is higher than shown by in Appendix 5 to GrainCorp's Investor Presentation dated 15 November 2012 as it includes GrainCorp Marketing's grain inventories (\$312 million) and current derivative financial instruments (net) and provisions.

⁶⁷ Cash and deposits at 30 September 2012 includes \$104.4 million in net proceeds from the institutional portion of the entitlement offer undertaken to partially fund the acquisition of Gardner Smith Group and Integro Foods.

⁶⁸ Including 857,202 shares held by the trustee for the GrainCorp employee share ownership plans for purposes of issuing shares under employee incentive plans (see Section 4.4). GrainCorp accounts for these shares as treasury shares.

⁶⁹ NTA is net tangible assets, which is calculated as net assets less intangible assets.

⁷⁰ Statutory gearing is net borrowings divided by net assets plus net borrowings.

⁷¹ Core gearing is core borrowings (i.e. net borrowings less GrainCorp Marketing grain inventory and GrainCorp Oils oilseed inventory) divided by net asset plus core borrowings.

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Investment in equity accounted associates primarily represents GrainCorp's 60% equity interest in Allied Mills (see Section 5.5). GrainCorp has also extended loans to its associates. The composition of investment on associates is set out below:

GrainCorp – Investments in Associates (\$ millions)			
	Equity Interest	As at 31 March 2013	
		Equity	Loans
Allied Mills	60% ⁷²	143.0	19.1
National Grower Register Pty Ltd	50%	1.7	0.7
Wheat Australia Pty Ltd	33%	-	⁷³
Total		144.7	19.8

Source: GrainCorp

Assets held for sale represents a small, non core GrainCorp Malt plant which is being marketed for sale. Investments in other unlisted entities are recognised at cost.

GrainCorp uses a range of derivative financial instruments to manage its exposure to various commodity price, foreign currency, utility (gas and electricity) price and interest rate risk. Derivative financial instruments are recognised at fair value. Derivative financial instruments relating to interest rate swap contracts are shown in external borrowings (see below).

Other non-current liabilities (net) at 31 March 2013 include derivative financial instruments (other than interest rate swap contracts) (\$13.7 million), lease incentives (\$0.2 million) and provisions (\$6.9 million).

GrainCorp operates a number of defined benefit retirement plans for the benefit of its employees in GrainCorp Malt in the United Kingdom and North America. The defined benefit plan deficit (\$33.7 million at 31 March 2013) represents the excess of the present value of defined benefit plan obligations over the fair value of plan assets. This liability is recognised in accordance with recent actuarial advice received by GrainCorp.

At 31 March 2013, GrainCorp's borrowings of \$1,135.1 million comprised:

GrainCorp – Borrowings (\$ millions)			
Facility	As at 31 March 2013		
	Amount Committed	Amount Drawn	Maturity Date
Working capital (unsecured)	265.0	79.4	October 2013
Commodity inventory funding (secured)	638.0	497.2	November 2013
Term (unsecured)	374.2	322.0	July 2016
Term (unsecured)	225.0	225.0	October 2016
Finance leases (secured)	10.9	10.9	
Interest rate swap contracts	-	0.6	
Total	1,512.0	1,135.1	

Source: GrainCorp and Grant Samuel analysis

The commodity inventory funding facility is available to GrainCorp for the acquisition of commodity inventory related to marketing activities. At 31 March 2013, this facility was drawn to the extent of \$497.2 million and was secured by inventory with fair value of \$458.4 million. Consequently, GrainCorp focuses on borrowings excluding the fully secured commodity inventory funding ("core borrowings").

⁷² GrainCorp has a 60% equity interest in Allied Mills but only 50% voting rights and therefore accounts for it as an equity accounted investment.

⁷³ Less than \$20,000.

GrainCorp's core net borrowings at 31 March 2013 were as follows:

GrainCorp – Core Net Borrowings (\$ millions)	
Facility	As at 31 March 2013
Working capital (unsecured)	79.4
Commodity inventory funding (secured)	497.2
Term (unsecured)	322.0
Term (unsecured)	225.0
Finance leases	10.9
Interest rate swap contracts	0.6
Borrowings	1,135.1
Less: Commodity inventory	(497.8)
Core borrowings	637.3
Less: Cash and deposits	(221.7)
Core net borrowings⁷⁴	415.6

Source: GrainCorp and Grant Samuel analysis

At 31 March 2013, GrainCorp had total capital expenditure commitments of \$4.0 million payable during FY13 and had disclosed contingent liabilities relating to any excess above current provisions for possible claims for losses or damage in the normal course of business, workers compensation/safety claims and environmental claims.

Under the Australian tax consolidation regime, GrainCorp and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 31 March 2013, GrainCorp had gross carried forward income tax losses of approximately \$14.9 million (of which \$8.9 million were recognised in the balance sheet) and minimal gross carried forward Australian capital losses. GrainCorp also has approximately \$68 million in accumulated franking credits, prior to the utilisation of franking credits in the payment of the FY13 interim dividend of 25 cents per share.

4.4 Capital Structure and Ownership

GrainCorp has 228,855,628 ordinary shares on issue. At 31 May 2013 there were 13,851 registered shareholders in GrainCorp. The top twenty shareholders accounted for approximately 80.6% of shares on issue and other than ADM Australia, are principally institutional nominee or custodian companies. GrainCorp has received substantial shareholder notices as follows:

GrainCorp – Substantial Shareholders			
Shareholder	Date of Notice	Number of Shares	Percentage
ADM Australia ⁷⁵	7 December 2012	45,420,054	19.85%
National Australia Bank Limited	12 June 2013	17,099,377	7.47%
UBS AG	31 May 2013	16,944,109	7.40%

Source: GrainCorp

Around 95% of GrainCorp's registered shareholders hold 10,000 shares or less and this represents less than 10% of shares on issue.

⁷⁴ Higher than core net borrowings disclosed by GrainCorp due to inclusion of interest rate swap contracts (\$0.6 million).

⁷⁵ GrainCorp has a relevant interest in ADM Australia's shareholding as a consequence of entering into the Implementation Deed.

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GrainCorp operates two current employee incentive plans and one legacy plan:

- **Deferred Equity Plan:** a participant's short term incentive is deferred by the grant of a right that converts to a share at the end of the vesting period (i.e. 50% at the end of year one and the balance at the end of year two). Share rights are forfeited upon resignation or termination with cause (subject to the Board's discretion) but vest in full at the normal date (subject to Board discretion) upon redundancy, disability, death or retirement. In the event of a change of control, any unvested rights will vest unless the Board determines that circumstances warrant a different treatment;
- **Long Term Incentive Plan:** a participant's long term incentive is deferred by the grant of a right that converts to a share at the end of the vesting period (i.e. three years after grant subject to return of equity and total shareholder return hurdles). Share rights are forfeited upon resignation or termination with cause (subject to Board discretion) but a participant is entitled to a pro-rata amount of unvested rights upon redundancy, disability, death or retirement. Any unvested rights which continue to be held will be tested at the end of the performance period (subject to Board discretion). In the event of a change of control, the rights will be tested as to the extent to which the vesting conditions have been satisfied at the time of the change of control as determined by the Board. Any unvested rights will vest without being pro-rated as to time unless the Board determines that circumstances warrant a different proportion of unvested rights should vest; and
- **Retention Share Plan:** this plan has been discontinued with the last grant made on 15 December 2010. Under this plan restricted shares to the value of the eligible employee's short term incentive amount are purchased by the plan trustee and vest on conclusion of three years' service. The restricted shares are subject to forfeit on resignation or termination with cause. In the event of a change of control, the restriction period automatically ends and all shares vest, unless the Board determines that circumstances warrant a different treatment.

At 20 June 2013 the granted and vested performance share rights and restricted shares under these plans are as follows:

GrainCorp – Performance Share Rights and Restricted Shares				
Grant Date	Expiry Date	Number of Performance Share Rights / Restricted Shares		
		On Issue	Unvested	Vested
<i>Deferred Equity Plan</i>				
3 Jan 2012	30 Sept 2013	240,538	240,538	-
		240,538	240,538	-
<i>Long Term Incentive Plan</i>				
28 Feb 2011	30 Sept 2013	209,379	209,379	-
30 Mar 2011	30 Sept 2013	6,663	6,663	-
16 Feb 2012	30 Sept 2014	275,451	275,451	-
		491,493	491,493	-
Total Performance Share Rights		732,554	732,554	-
<i>Retention Share Plan (legacy plan)</i>				
15 Dec 2010	30 Sept 2013	171,903	171,903	-
Total Restricted Shares		171,903	171,903	-
Total		903,934	903,934	-

Source: GrainCorp

The Deferred Equity Plan and the Long Term Incentive Plan rules provide for the transfer of existing shares to participants on vesting of rights (i.e. if not held already held by the trustee then to acquire them on market). The Board recently amended the plan rules to enable it to issue shares to satisfy vested rights. At 20 June 2013 the trustee needed to obtain a further 47,253 GrainCorp shares to fulfil its obligations on vesting of existing performance share rights.



4.5 Share Price Performance

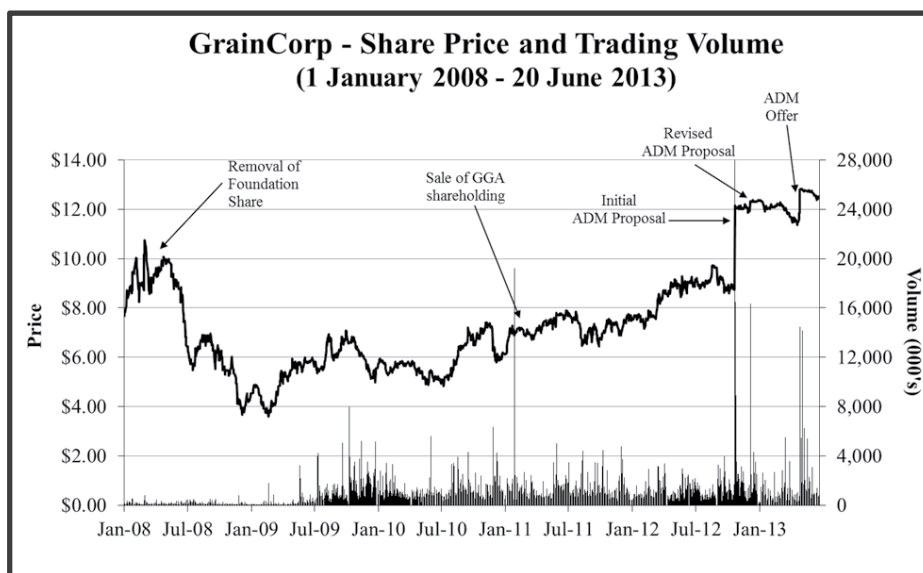
A summary of the price and trading history of GrainCorp since 1 January 2008 is set out below:

GrainCorp - Share Price History					
	Share Price (\$)			Average Weekly Volume (000's)	Average No. of Weekly Transactions
	High	Low	Close		
Year ended 31 December					
2008	10.75	3.57	4.54	702	1,941
2009	8.19	3.57	5.74	4,095	5,419
2010	7.64	4.72	6.15	5,823	10,397
2011	8.12	6.07	7.56	6,397	13,773
Quarter ended					
31 March 2012	8.79	7.16	8.72	5,499	14,599
30 June 2012	9.30	8.38	9.15	5,796	17,721
30 September 2012	9.84	8.55	8.85	5,515	16,939
31 December 2012	12.53	8.60	12.35	15,903	13,154
31 March 2013	12.40	11.49	11.68	4,964	10,251
Month ended					
30 April 2013	12.88	11.26	12.82	7,453	12,891
31 May 2013	12.87	12.70	12.70	12,136	10,210
30 June 2013 (to 20 June)	12.71	12.32	12.48	3,897	9,472

Source: IRESS

Note: Share prices on an adjusted basis reflecting rights issues, bonus issues and special dividends.

From listing in 1998 to 2008 the VWAP⁷⁶ for GrainCorp shares was around \$8.00 (on an adjusted basis) on relatively thin volumes. However, over this period the level of market interest in GrainCorp and liquidity gradually increased, particularly as the expectation of wheat industry deregulation increased. The following graph illustrates the movement in the GrainCorp share price and trading volumes since 1 January 2008:



Source: IRESS

- Notes: (1) Share prices on an adjusted basis reflecting rights issues, bonus issues and special dividends.
 (2) On one day in this period more than 28 million shares were traded but are not shown on the graph (i.e. 19 October 2012 related to dealings by ADM).

⁷⁶ VWAP is volume weighted average price.

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Increased market interest and the removal of the Foundation Share in February 2008 provided support for the GrainCorp share price in the first quarter of 2008, notwithstanding the downturn in equity markets. However, a lower than expected result for the six months to 31 March 2008 (due to the prolonged drought in eastern Australia) combined with market uncertainty regarding GrainCorp's (ultimately unsuccessful) May 2008 scrip takeover offer for Ridley Corporation Limited, the move into rail logistics and industry deregulation, resulted in significant downward pressure on the share price. The continuation of drought conditions pushed the share price down further to below \$4.00 in early 2009.

During 2009, the GrainCorp share price recovered to trade broadly in the range \$5.00-6.00. As seasonal conditions improved and as the benefits of the "end to end" business strategy emerged following the acquisition of United Malt Holdings in October 2009, the GrainCorp share price strengthened to above \$6.00 (notwithstanding its unsuccessful July 2010 proposal to merge with AWB). The sale of GGA's 8.45% shareholding in January 2011 increased GrainCorp's free float to 100% and, during 2011, GrainCorp traded in the range of \$6.00-8.00, at a VWAP of \$7.19 (adjusted basis).

On the back of a strong 2011/12 harvest, positive expectations for the 2012/13 harvest (due to above average rainfall) and press speculation regarding acquirer interest in Viterro, the GrainCorp share price rose above \$8.30 in March 2012 (adjusted basis). Following the announcement of Glencore's acquisition of Viterro on 21 March 2012, the share price jumped again to above \$8.50 (adjusted basis).

From the end of March 2012 to 27 August 2012 (the last trading day prior to the trading halt relating to the acquisition of Gardner Smith Group and Integro Foods to create GrainCorp Oils), GrainCorp shares traded in the range \$8.38-9.84 (at a VWAP of \$8.98) and closed at \$9.64 (adjusted basis). The acquisition was funded by an issue of shares at a price of \$9.79 (to Gardner Smith Group shareholders) and a pro rata entitlement offer at a price of \$8.80 (a 10.1% discount to the theoretical ex rights price of \$9.79). The entitlement offer comprised:

- an institutional offer which was completed on 30 August 2012 raising \$107 million at a price of \$9.20 (a 4.5% premium to the \$8.80 offer price); and
- a retail offer which was completed on 26 September 2012 raising \$56 million at a price of \$8.80.

Following completion of the retail offer on 26 September until 18 October 2012 (the day prior to the trading halt in relation to ADM's initial proposal), GrainCorp shares traded in the range \$8.60-9.01 (at a VWAP of \$8.82) and closed at \$8.74 (on an adjusted basis)⁷⁷.

The GrainCorp share price jumped by over 35% following the announcement of ADM's proposal on 22 October 2012 and has subsequently traded in the following ranges:

GrainCorp – Share Price since announcement of ADM's proposal on 19 October 2012			
Period	Event (Last Day Prior)	Price Range⁷⁸	VWAP
22 Oct 2012 to 2 Dec 2012	ADM's revised proposal	\$11.78-12.53	\$12.09
3 Dec 2012 to 24 April 2013	ADM Offer announcement	\$11.26-12.45	\$12.11
25 April 2013 to 20 June 2013	Target's Statement on ADM Offer	\$12.32-12.88	\$12.76

GrainCorp's free float has been 100% since GGA's sell-down in January 2011 until ADM acquired its stake. In the twelve months prior to 19 October 2012, GrainCorp has been a liquid stock with average weekly volume representing approximately 2.8% of average shares on issue or annual turnover of around 148% of total average issued capital.

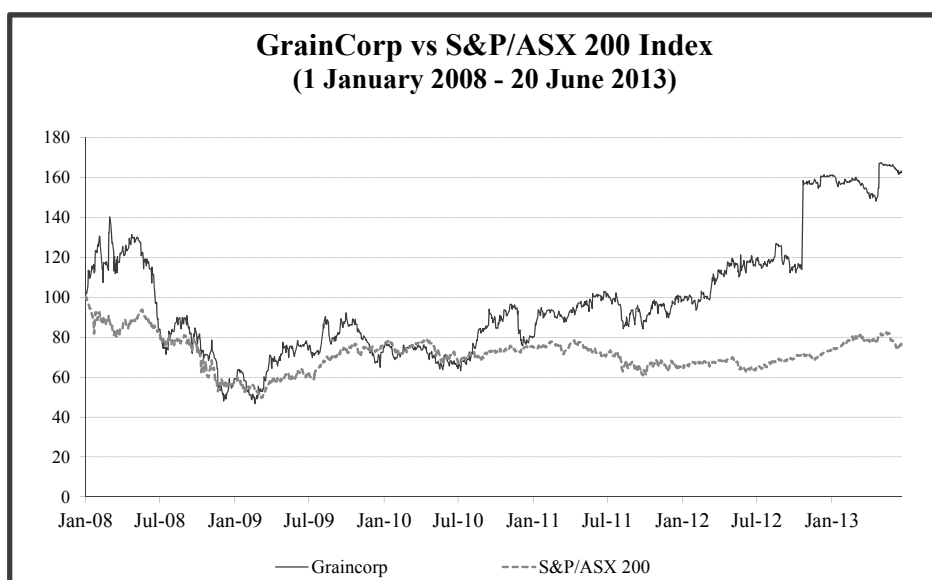
⁷⁷ The actual closing price on 18 October 2012 was \$8.85.

⁷⁸ Shares prices on adjusted basis reflecting rights issues, bonus issues and special dividends.

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GrainCorp is an ASX 100 company and is a member of various indices including the S&P/ASX 100 Index, S&P/ASX 200 Index and S&P/ASX 200 Food, Beverage & Tobacco Index. Its weighting in these indices is approximately 0.25%, 0.23% and 16% respectively. The following graph illustrates the performance of GrainCorp shares since 1 January 2008 relative to the S&P/ASX 200 Index:



Source: IRESS

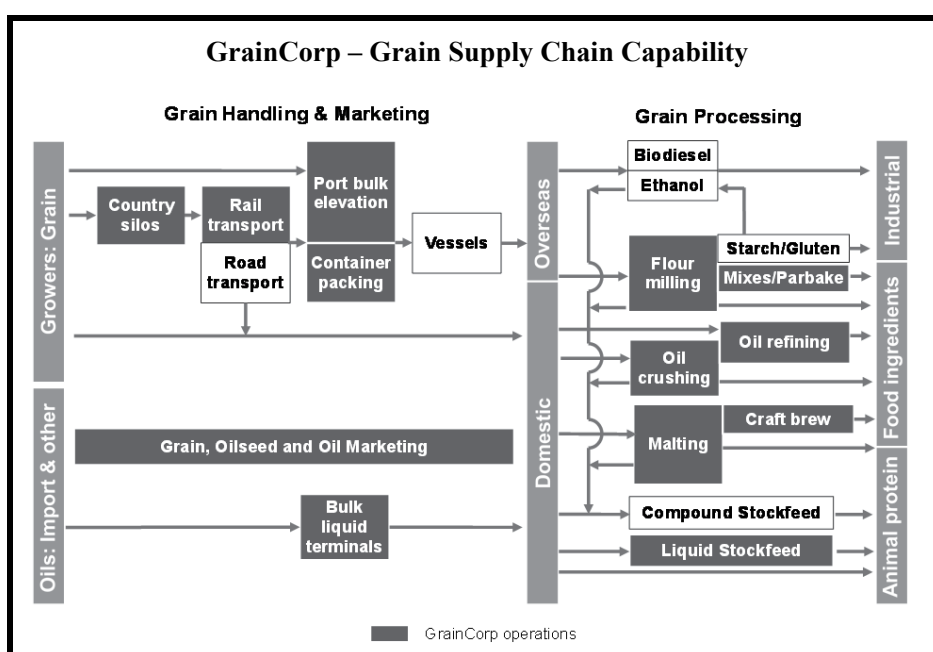
GrainCorp shares outperformed the S&P/ASX 200 Index at the beginning of 2008 but following the half year result (reflecting the prolonged drought) fell to trade generally in line with the market until July 2010. Between July 2010 and March 2012, GrainCorp shares had periods of outperformance (e.g. announcement of the ultimately unsuccessful proposal to merge with AWB) and underperformance (e.g. after the release of 2010 results) but in overall terms outperformed the market over this period. Over the seven months from March 2012 until ADM's initial proposal on 19 October 2012, GrainCorp shares performed effectively in line with the market (although the market index declined and recovered through the period).

5 Business Operations

5.1 Overview of Business Model

GrainCorp operates an integrated “end to end” grain handling and processing business operating globally. The foundations of its current business lie with the extensive portfolio of grain storage and logistics assets assembled over the last 20 years and the 2008 deregulation of Australian bulk wheat exports.

GrainCorp has developed capabilities along the grain supply chain which provides opportunities to generate and capture value:



Source: GrainCorp

GrainCorp’s business model is focussed in areas where it has a comparative advantage. In this regard, GrainCorp:

- focuses on three dry climate grains (wheat, barley and canola) although it does deal with other grains (such as sorghum) and pulses;
- operates in the key areas of the supply chain (i.e. storage and handling, marketing and processing); and
- operates primarily in Australasia, North America and Europe, the food markets which supply more than 50% of the global trade in wheat, barley and canola.

GrainCorp leverages its expertise in these areas to provide greater market insight so that it can respond to the needs of grain producers as well as product manufacturers and consumers. Although GrainCorp’s business remains subject to fluctuations in harvest and commodity prices, diversification of grains and geographies has enabled it to manage the variability of earnings as well as providing opportunities to generate and capture value (particularly through GrainCorp Marketing) and, consequently, improve returns to shareholders.

As the full extent of this business model has developed over the last five years, GrainCorp has begun implementing a program of business and performance improvement initiatives to strengthen, integrate and grow the existing business platform, to improve its customer offering and to position itself to take advantage of the expected growth in grain volumes globally. These



growth initiatives are targeting around \$110 million of incremental underlying EBITDA by FY16. Costs associated with this program are estimated at \$270 million, of which \$20 million was spent in FY12. The initiatives can be summarised as follows:

GrainCorp – Growth Initiatives			
	Gamechangers	Asset Optimisation	Port Flexibility
Objective	Strengthen grain handling network	Integrate and optimise the GrainCorp Oils business	Change in port access arrangements
	Grow GrainCorp Marketing business	Increase diversification and optimise ports businesses	
	Create and capture additional value in GrainCorp Malt		
EBITDA target	~\$45 million (by FY15)	~\$45 million (by FY16)	~\$20 million (by FY16)
Cost	~\$70 million (\$20 million spent in FY12)	~\$180 million	minimal

Source: GrainCorp

The initiatives are described in more detail under the respective business unit profiles (see following sections).

5.2 Storage & Logistics

Storage & Logistics is the largest grain network in eastern Australia and is estimated to handle around 75%⁷⁹ of grain production in that region. The network was amalgamated over the 15 years to 2005 by the privatisation and merger of grain handling businesses in New South Wales, Victoria and Queensland.

Operations

Storage & Logistics operates an integrated network linking around 10,000 grain growers through its country receival network to over 100 domestic and international buyers (including GrainCorp Marketing) via its logistics and ports capabilities. It has around 1,100 employees (full time equivalent) and can employ more than 2,000 casual staff during harvest period. Storage & Logistics' assets and capabilities comprise:

Storage & Logistics – Assets and Capabilities		
Country	Logistics	Ports
280+ receival sites across eastern Australian grain production regions ~20 mt storage capacity - Serves 10,000+ growers and 100+ buyers	- Manages 20+ grain trains with >5 mt capacity - Manages >1 mt road freight	7 (of the 8) bulk grain export ports in eastern Australia (~16 mt handling capacity) 3 container facilities

Source: GrainCorp

⁷⁹ Including country and direct to port receivals.

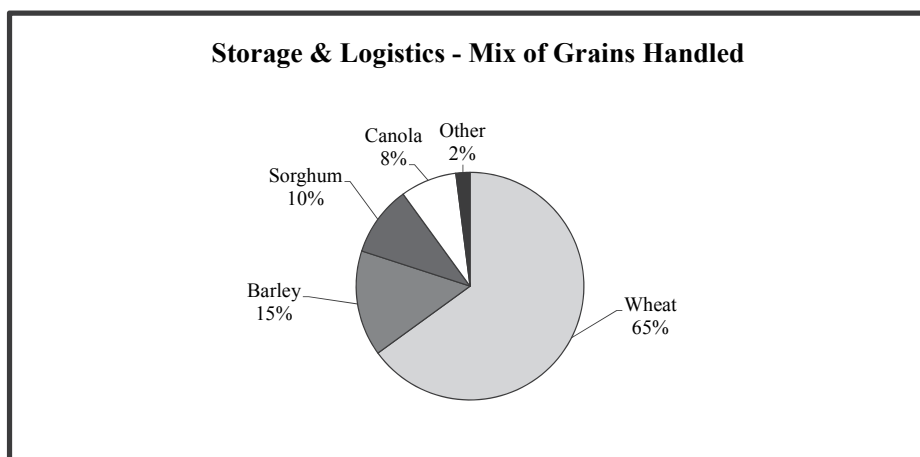
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Storage & Logistics comparative advantage over its competitors in eastern Australia (Cargill and Emerald Group) derives from:

- the extent and location of its receival network which far exceeds that of its competitors (see Section 3.4). Storage & Logistics' country receivals network spans the eastern Australian producing region and over time has streamlined to ensure that it can service the entire production region efficiently. The network is also highly flexible, able to respond to fluctuations in grain supply and demand (e.g. receival sites can be deactivated in low harvest periods or opened to receive grain for short periods only during harvest) and mobile equipment moved between sites;
- its substantial storage capacity, of which more than 30% is permanent (i.e. sealed silos). It has seven times the capacity of its nearest competitor (Cargill) and a larger component of permanent storage. This capacity enables Storage & Logistics to provide storage for both growers and the major grain aggregators (including GrainCorp Marketing). In years of good harvest, this means customers can carry over grain to future years to take advantage of trading opportunities as they arise;
- the extent of its freight management capabilities (both road and rail) which are important in delivering reliable and seamless services to customers; and
- operation of seven of the eight bulk grain export ports in eastern Australia as well as three container facilities. Storage & Logistics' ports operations are estimated to handle around 75% of grain exports (bulk and container) from eastern Australia. The ports also handle around 2 mt of non-grain bulk imports and exports (including woodchips, sand, fertiliser, meal, cottonseed and orange juice) for a range of customers.

On average, the mix of grains handled by Storage & Logistics' network is as follows:



Source: GrainCorp

Storage & Logistics has developed strong relationships with grain growers based on the efficiency and responsiveness of the receival network and the provision of other value added services which assist the growers to make business decisions (e.g. storage capacity, alternative pricing mechanisms, price discovery applications). The ability for Storage & Logistics to provide a seamless service effectively from farm to port is an important factor for the major grain aggregators (including GrainCorp Marketing) as they are usually also the major exporters. Storage & Logistics also works closely with major domestic consumers of grain to optimise grain procurement processes.



Financial Performance

The adjusted financial performance of Storage & Logistics for the five and a half years ended 31 March 2013 as set out in Section 4.3 of this report is summarised below:

Storage & Logistics – Adjusted Financial Performance (\$ millions)						
	Year ended 30 September					Six months ended 31 March 2013
	2008	2009	2010	2011	2012	
<i>Eastern Australian grains harvest (mt)</i>	14.5	19.5	18.1	28.7	26.8	23.1 ⁸⁰
<i>Eastern Australian wheat harvest (mt)</i>	5.4	10.7	9.7	16.4	14.3	11.5 ⁸⁰
Grain volumes (mt)						
Grain carry-in	1.2	2.2	2.9	2.6	6.0	4.3
Country network grain receivals	5.8	9.6	7.4	14.9	12.2	9.7
Grain received at port (ex farm and other handlers)	0.7	1.1	1.0	2.3	3.0	1.1
Grain exports handled	(0.8)	(5.2)	(3.5)	(8.1)	(10.6)	(4.3)
Domestic outload	(4.7)	(4.9)	(5.2)	(5.7)	(6.3)	(3.0)
Grain carry-out	2.2	2.9	2.6	6.0	4.3	7.8
Non-grain exports	(2.1)	(1.3)	(1.4)	(1.5)	(1.8)	(0.8)
Throughput⁸¹	8.8	16.9	13.9	24.1	28.5	15.2
Financial Performance						
Adjusted sales revenue	170.4	418.4	308.6	513.6	535.5	263.9
Adjusted EBITDA	26.1	153.2	73.3	194.7	249.7	119.3
Depreciation and amortisation	(37.6)	(39.4)	(41.2)	(46.4)	(53.3)	(25.5)
Adjusted EBIT	(11.5)	113.8	32.1	148.3	196.4	93.8
Capital expenditure						
Stay in business		21.8	31.5	33.2	30.2	15.2
Strategic initiatives/growth		2.5	11.1	18.0	34.0	9.0
Total	18.7	24.3	42.6	51.2	64.2	24.2
Statistics						
<i>Adjusted EBITDA margin</i>	15.3%	36.6%	23.8%	37.9%	46.6%	45.2%
<i>Adjusted EBIT margin</i>	(6.8%)	27.2%	10.4%	28.9%	36.7%	35.5%
<i>Adjusted sales revenue per throughput tonne</i>	\$19.37	\$24.83	\$22.20	\$21.31	\$18.82	\$17.36
<i>Adjusted EBITDA per throughput tonne</i>	\$2.96	\$9.09	\$5.28	\$8.08	\$8.78	\$7.85

Source: GrainCorp and Grant Samuel analysis

Storage & Logistics' operating performance is a function of the size of the grain harvest in eastern Australia. However, unless there is a poor harvest across the entire producing region, its geographic diversity and receival network flexibility reduces operating performance variability.

The Storage & Logistics business fundamentally changed with deregulation of bulk wheat exports in 2008. Previously it was primarily a domestic storage and handling business and, although owning bulk port facilities, those operations were subject to AWB's export activities and AWB managed much of the rail and road transport. Since 2008 Storage & Logistics has assumed management of all logistical elements in the supply chain and developed strong relationships with grain aggregators/exporters. GrainCorp Marketing has separately developed an export customer base.

Increased throughput has resulted in increased revenue and earnings over the period. Revenue per tonne has declined due to the increase in grain received directly at port and due to the higher volume of carry-in grain. The period presented above includes both drought affected and record harvests and accordingly, profit per tonne fluctuates significantly (due to the fixed cost component). Nevertheless Storage & Logistics' underlying EBITDA per throughput tonne has

⁸⁰ ABARES estimate for the 12 months ended 30 June 2013.

⁸¹ Calculated as [(grain carry-in + country receivals) plus (grain carry-in + country receivals – grain carry-out)/2] plus grain exports and non-grain exports.

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strengthened through improving efficiencies over the period notwithstanding the increasing level of direct port receivals which do not pass through GrainCorp's storage network. In addition, in FY12 Storage & Logistics took the opportunity of a second strong harvest (after a number of drought years) invest in a number of strategic projects.

The 2012/13 winter crop harvest in eastern Australia is complete and the (much smaller) summer crop is substantially complete. Storage & Logistics is estimating country receivals of 10-10.5 mt and bulk grain exports of 8-8.5 mt, materially lower than the levels experienced in FY12. This will result in a decline in earnings in FY13 although there will be some benefit from the relatively high carry-in level. This pattern can be seen in the half year results to 31 March 2013 where EBITDA was \$28 million lower than in the corresponding period in FY12.

Capital expenditure has increased in recent years reflecting increased investment in the country receival network and ports following the prolonged period of drought and the step change in the business in FY08. The increase in strategic initiatives/growth capital expenditure reflects costs incurred in relation to the initiatives discussed below (including expenditure on receivals equipment and site upgrades to improve customer service). Storage & Logistics is also making significant investment in safety initiatives across the network.

Notwithstanding the improved underlying profitability of recent years, Storage & Logistics is targeting incremental EBITDA of \$52 million by FY16 from a range of projects, at an estimated cost of \$44 million. These initiatives are categorised as follows:

- projects to strengthen the grain handling network including:
 - enhancing the grower offering (e.g. site equipment upgrades, improved market information);
 - improved rail capability and productivity (e.g. reduced downtime/underloading); and
 - improved network planning efficiency by way of active stock management and road haulage management.

These projects are targeting \$20 million of incremental EBITDA, at a cost of \$25 million. In relation to these initiatives, a seven year agreement for rail haulage between Aurizon Holdings Limited and GrainCorp was announced on 19 December 2012;

- projects to optimise port volume growth and efficiencies including targeting growth in non-grain port storage and handling capabilities and port process improvement initiatives. These projects are targeting \$12 million of incremental EBITDA, at a cost of \$19 million; and
- improvement in port flexibility to allow greater operational flexibility and improved long term planning. This involves the move towards long term agreements and improvements in the international competitiveness of the ports. Storage & Logistics estimates that this project could result in incremental EBITDA of \$20 million by FY16 at minimal cost. In this regard:
 - the ACCC announced on 30 November 2012 that it would not object to GrainCorp offering long term agreements (three years) to grain exporters for access to its ports for up to 60% of port capacity; and
 - the *Wheat Export Marketing Amendment Bill 2012* was enacted on 3 December 2012 allowing for an industry code of conduct to replace existing port access undertakings from 2015.

These announcements are key to enabling changes across the grain export market to expanding grain accumulation and export planning horizons for exporters. In this regard, GrainCorp has received commitments from exporters for 3.8 mt of port capacity under long term agreements.

5.3 GrainCorp Marketing

GrainCorp Marketing provides the link between growers and consumers along the grain supply chain. It provides services both within Australia and internationally with around 70 employees (full time equivalent).

Operations

GrainCorp Marketing buys grain from growers and other grain traders and sells to export and domestic (including in-house) customers both for human consumption and livestock feed. It engages with consumers to maximise the delivery of grain through Storage & Logistics' network via:

- grain accumulation teams to purchase grain from growers;
- liaising with freight and port operations to ensure grain is available and supplied to the customer as requested at the specified quality;
- a customer support team which provides risk management, market knowledge and technical support to customers;
- international offices in Hamburg (opened 2011), United Kingdom, Calgary (opened 2012) and Singapore and an agent in China; and
- managing alliances with strategic customers and other parties.

GrainCorp Marketing captures additional value from trading grain and arbitrage opportunities (e.g. quality (blending) and location (swaps)). Risk positions are focussed on basis and spread trading with modest flat price limits within an extensive risk management framework.

GrainCorp Marketing's comparative advantage with customers derives from:

- its origination capability including both the strong demand for eastern Australian grain internationally and its geographic coverage (both in Australia and overseas);
- the greater confidence levels provided to customers in relation to delivery execution because of the integration with its associated Storage & Logistics business;
- the location of its trading offices in markets that have a significant role in its core grains (wheat, barley, canola) providing greater insight into pricing, freight and quality differentials; and
- the grain market insights available from its peers at GrainCorp Malt and GrainCorp Oils as well as the grain procurement activities of large domestic and international customers (e.g. Allied Mills).

GrainCorp Marketing has developed direct relationships with a wide range of large consumers of grains (both domestically and internationally) and is developing additional relationship customers in Asia and the Middle East and North Africa. Exports are the key driver of marketing sales with increasing contributions from overseas offices. In recent years, GrainCorp Marketing is estimated to have accounted for about 35% of eastern Australian bulk grain exports with Cargill and Glencore accounting for 27% and 16% respectively.

GrainCorp Marketing is continuing to develop customer relationships with the intention of using its international footprint to satisfy customer requirements as required (i.e. acquire grains elsewhere if necessary).



Financial Performance

As GrainCorp Marketing aggregates and on sells grain, its activities are predominantly funded by short term commodity debt facilities, matching debt with the asset life and fluctuating with seasonal grain purchases and underlying grain prices. Carrying costs such as interest are factored into selling prices/margins. Accordingly, trading profits and interest expense are interlinked parts of the business operations (rather than being an independent structural decision). Therefore, for management purposes, the interest expense associated with this funding is treated as an operating cost and included in cost of goods sold. Consequently, the adjusted financial performance of GrainCorp Marketing for the five and a half years ended 31 March 2013 (as set out in Section 4.3 of this report) has been further adjusted to deduct interest as summarised below:

GrainCorp Marketing – Adjusted Financial Performance (\$ millions)						
	Year ended 30 September					Six months ended 31 March 2013
	2008	2009	2010	2011	2012	
Grain volumes (mt)						
Domestic sales	2.5	2.1	2.2	2.8	2.5	1.3
International sales	0.6	1.5	1.1	2.7	4.4	2.2
Total	3.1	3.6	3.3	5.5	6.9	3.5
Financial Performance						
Adjusted sales revenue	1,268.8	1,241.6	902.5	1,395.4	1,848.8	1,197.4
Adjusted EBITDA	27.0	38.6	31.2	70.0	63.1	26.7
Marketing interest	(24.3)	(13.3)	(11.8)	(24.5)	(21.9)	(10.2)
Adjusted PBTDA⁸²	2.7	25.4	19.4	45.5	41.2	16.6
Adjusted depreciation and amortisation	(0.6)	(0.4)	(0.3)	(0.5)	(0.4)	(0.6)
Adjusted PBT⁸³	2.1	25.0	19.1	45.0	40.8	16.0
Capital expenditure	-	-	-	-	9.9	4.4
Statistics						
Adjusted EBITDA margin	2.1%	3.1%	3.5%	5.0%	3.4%	2.2%
Adjusted PBTDA margin	0.2%	2.0%	2.1%	3.3%	2.2%	1.4%
Adjusted PBTDA per tonne	\$0.86	\$7.05	\$5.88	\$8.27	\$5.97	\$4.74

Source: GrainCorp and Grant Samuel analysis

GrainCorp Marketing's earnings prior to FY09 are no longer relevant as a consequence of the deregulation of the wheat export market in July 2008. Domestic sales volumes have been relatively stable over the period although harvest constrained in FY09 and FY10. In comparison, international sales have grown from zero in FY07 to 4.4 mt in FY12 reflecting entry into this business, growth since deregulation and the size of the 2011/12 eastern Australian grain harvest. The level of export sales as a proportion of sales is impacted by changes in eastern Australian grain supply (i.e. exports volumes flexes as the harvest goes up and down).

GrainCorp Marketing's revenue and earnings depend both on grain volumes and prices. Earnings in FY11 and FY12 benefited from the substantial uplift in export volumes. FY12 also benefited from volatility in wheat markets which helped generate trading opportunities. In contrast, the results in the first half of FY13 have been affected by:

- the lower crop in 2012/13;
- lesser trading opportunities (i.e. more stable grain prices); and
- some volume constraints caused by insufficient port access at key times.

⁸² Profit before tax, depreciation and amortisation.

⁸³ Profit before tax.

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In recent years, GrainCorp Marketing has invested in building its network of global offices and, consequently, has increased overheads ahead of revenue generation with an impact on PBTDA per tonne particularly in FY12 and in the six months to 31 March 2013. In addition, GrainCorp Marketing is investing in a global trading and risk management system to support the business which will be implemented in 2013.

GrainCorp Marketing is undertaking a range of projects to expand the footprint of its operations both in Australia (i.e. Western Australia and South Australia) and internationally and improve its customer offering. These projects are underway and are expected to deliver around \$12 million of incremental PBTDA by FY16, at a cost of \$15 million.

5.4 GrainCorp Malt

GrainCorp Malt is the fourth largest commercial malt manufacturer globally. It was formed in November 2009 following completion of the acquisition of United Malt Holdings and has since expanded through two bolt on acquisitions.

Operations

GrainCorp Malt operates 18 manufacturing facilities in Australia, the United States, Canada, the United Kingdom and Germany with annual malt production capacity of around 1,380 kt. Its facilities are located in proximity to barley growing regions representing around 60% of world production. GrainCorp Malt has around 730 employees (full time equivalent).

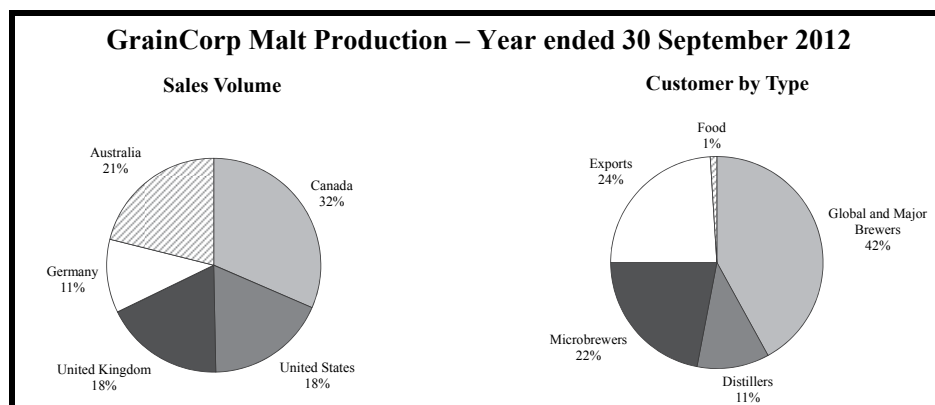
GrainCorp Malt operates as a global business but due to long term relationships with regional barley growers and malt customers has maintained five distinct business names. GrainCorp Malt's operations can be summarised as follows:

GrainCorp Malt – Operations		
NORTH AMERICA	EUROPE	AUSTRALIA
Canada Malting Company Location: Canada Plants: 3 Capacity: 455 kt Market share: approximately 50% Elevators: 10 Warehouses: 2 distributing branded malt	Bairds Malt Location: United Kingdom Plants: 5 Capacity: 253 kt Market share: 25%	Barrett Burston Malting Location: Australia Plants: 4 Capacity: 259 kt Market share: 35%
Great Western Malting Location: United States Plants: 2 Capacity: 223 kt Market share: 20% Warehouses: 8	Schill Malz Location: Germany Plants: 4 Capacity: 191 kt	

Source: GrainCorp

GrainCorp Malt generates earnings along the malt supply chain, from barley procurement and handling, malt processing and sale of co-products and in the distribution and sale of value added malt and related products. The extent to which each operation is involved in the sale of value added malt and related products differs (see below).

GrainCorp Malt sold 1.32 mt of malt in FY12 which can be analysed by region and customer as follows:



Source: GrainCorp

Note: Export customers are predominantly Asian brewers with some sales to Japanese distillers.

Each of the operations has developed over time to address the needs of their respective barley producing regions and target markets. In particular:

- Canada Malting Company owns and operates ten grain elevators at which 80% of the barley it processes is handled. This gives it significant insight and control over its barley requirements;
- Great Western Malting has substantial capability and market share in supplying and servicing the high growth craft brew segment (both micro brewing and home brewing segments). It operates:
 - The Country Malt Group which operates eight warehouses in the United States distributing branded malt, hops and other ingredients to regional and micro brewers; and
 - Brewcraft, a business distributing brewing ingredients and equipment to over 100 home brew retailers.

It also operates two warehouses in Canada which are reflected in the Canada Malting Company earnings and sees growth from expanding these businesses further into Canada and into its other operations (e.g. United Kingdom);

- Bairds Malt has significant on site storage capacity to receive and dry most of its barley requirements during harvest and is a leading supplier of malt to the Scottish distilling industry;
- a majority of Barrett Burston Malting's malt production is exported (primarily to Asia) and consequently it has developed significant relationships in the region. In this regard, its major malthouses (Pinkenba and Geelong) are co-located at port terminals operated by Storage & Logistics providing a cost advantage for exports. However, the emphasis on exports can impact margins in periods when the Australian dollar is high; and
- Schill Malz's major plants are located on major rivers that have access to barge transport for barley origination and malt export giving it cost competitive access to French barley and to overseas malt consumers and insight into European barley and malt price setting.

GrainCorp Malt is well positioned to compete in both regional and international markets:

- with operations located in all major barley growing regions it has access to cost competitive barley. It has strong relationships with barley growers and dedicated procurement teams;
- its involvement along the barley supply chain enables it to closely manage the quality of barley sourced both at harvest and via effective storage;
- its global network enables it to offer a broader offering to global brewers;

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- it has a diversified customer profile which reduces its exposure to the global brewers. It has a strong presence in the Scottish distilling sector, the craft brew sector and regional export consumers in Asia and Africa; and
- around a third of malt produced is for major customers under tolling agreements (under which the customer bears barley price risk) with terms greater than two years. These arrangements underwrite a good proportion of GrainCorp Malt's conversion costs and assists in managing exposure to barley price risk.

A major focus has been to improve the global integration of the business, shifting towards a global functional basis of operation rather than separate, self-contained geographic businesses. This process is ongoing.

Financial Performance

The adjusted financial performance of GrainCorp Malt since the acquisition of United Malt Holdings on 13 November 2009 as set out in Section 4.3 of this report is summarised below. In addition, to assist analysis of GrainCorp Malt's operating performance, the results for the 10.5 months to 30 September 2010 have been annualised and the available information for the year ended 30 June 2009 (i.e. prior to acquisition) has been included.

GrainCorp Malt – Adjusted Financial Performance (\$ millions)						
	Year ended 30 June 2009	Year ended 30 September				Six months ended 31 March 2013
		2010 (10.5 months)	2010 (annualised)	2011	2012	
Malt sales volume (kt)	1,039.5	939.0	1,073.1	1,056.6	1,317.1	616.0
Adjusted sales revenue	na	778.6	889.8	867.8	945.1	461.0
Adjusted EBITDA	133.0	109.8	125.5	91.6	112.3	51.4
Adjusted depreciation and amortisation	na	(16.7)	(19.1)	(18.7)	(23.9)	(11.9)
Adjusted EBIT	na	93.1	106.4	72.9	88.4	39.5
Capital expenditure						
Stay in business		14.4		22.4	19.5	11.9
Strategic initiatives/growth		39.6		43.6	18.0	10.1
Total		54.0		66.0	37.5	22.0
Statistics						
Adjusted EBITDA margin		14.1%	14.1%	10.6%	11.9%	11.1%
Adjusted EBIT margin		12.0%	12.0%	8.4%	9.4%	8.6%
EBITDA per tonne	\$127.95	\$116.94	\$116.94	\$86.69	\$85.26	\$83.44

Source: GrainCorp and Grant Samuel analysis

The increase in malt volumes in FY12 primarily reflects the acquisition of Schill Malz in October 2011 and a full year contribution from the Perth malthouse which was acquired in April 2011. Malt sales volumes in FY13 are expected to be in line with FY12 (around 1,300 kt) with consistent high plant utilisation.

Analysis of GrainCorp Malt's operating performance on an aggregate basis is made difficult by the translation of local currency earnings into Australian dollars as well as the differing business mix of each operation. Nevertheless, on an aggregate basis, profit margins:

- were high during FY09 and FY10 reflecting global malt industry conditions;
- fell sharply in FY11 primarily reflecting both global malt industry conditions and the impact of the strong Australian dollar on the results of Barrett Burston Malting (which exports the majority of its malt production) and the impact of a delayed and protracted barley crop and weak demand in the United Kingdom on the results of Bairds Malt (notwithstanding higher sales volumes in both operations);
- recovered in FY12. This recovery is not apparent in the FY12 EBITDA per tonne (\$85.26) as this includes Schill Malz's sales volume but with a negative profit contribution from that business during the year. Excluding Schill Malz's sales volume increases aggregate

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EBITDA per tonne to \$96.12. However, an important contributor to this uplift was barley procurement gains in Canada and the United Kingdom; and

- are expected to be lower in FY13 due to lower barley procurement gains than in FY12 but partly offset by a turnaround in the contribution from Schill Malz (although it will still report margins well below the other geographies). Overall, EBITDA per tonne is expected to be around \$75-80 (excluding payments currently being received from Port of Vancouver).

In relation to the individual business operations:

- Canadian Malting Company has experienced improvements in malting conversion costs and improvements in barley procurement. These improvements have been partially offset by the impact of the high Canadian dollar on export sales which represent around 60% of its sales volume;
- Great Western Malting has experienced strong growth in contribution from The Country Malt Group and Brewcraft businesses and strong export sales;
- Bairds Malt's focus on the distilling sector, the refurbishment and expansion of the Arbroath plant in Scotland in FY10 and improvements in barley procurement activities have offset weaker demand from local brewers. Bairds Malt launched Brewers Select in April 2013, targeting the growing craft beer market in the United Kingdom; and
- Barrett Burston Malting's contribution has been negatively impacted by the high Australian dollar given the significance of exports to its business as well as lower domestic volumes. The commissioning of the Pinkenba plant in November 2011 and the closure of two less efficient malthouses has partially offset this negative impact.

Significant investment has been made in recent years to increase GrainCorp Malt's capabilities including the commissioning of the Pinkenba, Brisbane plant (Nov 2011), the refurbishment of the Arbroath, Scotland plant (2010) and the acquisition of Schill Malz (Oct 2011). Although the Schill Malz acquisition is not expected to generate material earnings until 2015 it was acquired in part as a strategic foothold into the influential European market and to provide a more comprehensive geographic coverage. In addition, two other projects (effectively funded by third parties) are currently underway and are expected to generate cost savings from FY14:

- the construction of a new German kiln vessel in Vancouver, Washington (United States); and
- a project to build a water recycling plant at the malthouse in Calgary (Canada) which will generate rental income and water effluent costs savings.

These two projects together with the improved performance of Schill Malz acquisition are expected to generate incremental EBITDA of \$11 million per annum by FY15.

In addition, GrainCorp Malt is targeting a further \$14 million of incremental EBITDA by FY16 (at a cost of \$30 million) from a range of projects including:

- reducing manufacturing costs including utility costs through over 60 identified projects;
- consolidation of various functions globally (e.g. IT, finance, human resources, strategy);
- an increased focus on serving global customers across the geographies;
- expansion of the focus on the micro-brewery segment across the operations (e.g. in the United Kingdom); and
- leveraging barley procurement capabilities across GrainCorp Marketing and GrainCorp Malt.



5.5 GrainCorp Oils

GrainCorp Oils is an integrated edible oils business in Australia and New Zealand which was created following GrainCorp's separate acquisitions in October 2012 of the privately owned Gardner Smith Group and Goodman Fielder's Integro Foods⁸⁴. The process of combining these complementary businesses and integrating the new division with GrainCorp's existing canola seed accumulation and marketing operations is underway.

Operations

Gardner Smith Group comprises the following businesses:

- **Riverland Oilseeds:** Australia's second largest canola seed crusher with annual crushing capacity of more than 300 kt. It operates three crushing plants at Numurkah in the Riverland region of northern Victoria (220 ktpa⁸⁵), Millicent in South Australia (32 kt) and Pinjarra in Western Australia (50 kt). Riverland Oils sources canola seeds both from growers and from accumulators in Australia and produces around 120 ktpa of canola oil for domestic and export edible oil refiner customers and approximately 180 ktpa of protein meal primarily for the domestic stockfeed market. Together, Cargill Australia and Riverland Oils account for around 80% of the Australian canola seed crushing market. Integro Foods is Riverland Oils' major customer for crude edible oil;
- **Pacific Terminals:** an independent operator of bulk liquid port terminals in Australia and New Zealand. It operates five bulk liquid terminals in Australia, five terminals in New Zealand and one terminal in Shanghai in China with over 200,000m³ of storage capacity. Pacific Terminals handles around 1 million m³ of bulk liquids per annum including the import and export of vegetable oils, tallow and molasses for GrainCorp Oils and third parties and a growing amount of non-organic liquids (such as chemicals and fuels) for third parties. It is estimated to handle around 50% of fats and oils imports and exports in Australia and New Zealand. Services provided to customers include storage, handling, drumming, road cartage and blending and packaging of products for transport. Pacific Terminals' major competitors in Australia are Terminals Pty Limited, Stolthaven and Vopak;
- **Gardner Smith Marketing:** which is responsible for the marketing of approximately 200 ktpa of edible oils and tallow in Australia and New Zealand. Grain and pulse (chickpeas, lentils, lupins, beans and peas) trading activities have been assumed by GrainCorp Marketing;
- **Auscol:** a specialist used edible oil collection and recycling network across Australia which collects approximately 20 ktpa of used cooking oils and fats from restaurants, food chains and food manufacturers for recycling. Almost 90% of oil collected is recycled for use in areas such as animal feed, low grade industrial lubricants and biofuels. Auscol acquired the Fry Fresh/Fataway business in Western Australia in June 2012; and
- **Stockfeeds:** complementary businesses which use waste products from other processes (e.g. canola meal, waste oil) to produce animal feeds:
 - **Liquid Feeds:** a manufacturer and distributor of 160 ktpa of liquid feed supplements and concentrates for the Australian livestock industry including a range of molasses based products. It operates from plants near Melbourne, Mackay and Bundaberg. GrainCorp acquired the other 50% interest in this business in December 2012 and it is to be integrated with GrainCorp's other liquid feed business; and
 - **BLM Feeds:** a manufacturer and distributor of a range of animal feed products primarily to the dairy sector in New Zealand. This business was acquired in May 2012.

⁸⁴ GrainCorp did not acquire Goodman Fielder's out of home business in Australia or Asia Pacific fats and oils business.

⁸⁵ ktpa = thousand tonnes per annum.

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Integro Foods is the largest refiner and packager of edible fats and oils for food industry customers in Australia and New Zealand with refining capacity of around 280 ktpa. It sources crude edible oils both domestically (including from Riverland Oils) and internationally and produces edible oils and fats at three refining facilities: two in Australia (Murarrie, Brisbane and West Footscray, Melbourne) and one in Auckland, New Zealand. Integro Foods produces around 230 ktpa of edible oils and is estimated to have a 40% share of the Australian and New Zealand edible oil refining market.

Integro Foods produces an extensive range of basic and complex edible fats and oil products. Liquid oils, margarines and blends, solid oils, bakery fats and shortenings are sold both in bulk and packaged form to over 450 customers across Australia and New Zealand. Integro Foods' customers fall into the following key categories:

- **industrial:** primarily large food manufacturers and re-packers and exporters which receive bulk oil (typically customised blends) primarily shipped via tanker;
- **bakers:** which receive customised branded products and services; and
- **quick service restaurants:** which requires a full service offering including customised liquid oils.

Integro Foods has long term supply agreements to be the exclusive supplier of edible fats and oils to Goodman Fielder. Under these agreements products are supplied either as finished goods (including under brand names such as *Crisco* and *Meadow Lea*) and as ingredients. This strategic relationship with Goodman Fielder represents approximately 40% of Integro Foods's annual sales volumes and underpins a substantial portion of its manufacturing cost base.

The integration of Gardner Smith Group and Integro Foods will create a canola and edible oils business which mirrors GrainCorp's existing "end to end" grain supply chain business model. It has around 550 employees (full time equivalent). GrainCorp Oils will become an integrated canola crusher and edible oil refiner and access to GrainCorp's accumulation and procurement network will provide improved commodity risk and supply chain management for its customers. Pacific Terminals will supplement GrainCorp's existing ports expertise.

Financial Performance

As GrainCorp Oils was only established on completion of the acquisition of Gardner Smith Group and Integro Foods on 2 October 2012, the historical financial performance for GrainCorp Oils below is the aggregate of the pro forma results of Gardner Smith Group for the four years ended 31 March 2012 and the pro forma results of Integro Foods for the four years ended 30 June 2012 and the actual results for the six months ended 31 March 2013:

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GrainCorp Oils – Financial Performance (\$ millions)					
	Financial Year				Six months ended 31 March 2013
	2009	2010	2011	2012	
Sales revenue					
- Gardner Smith Group	290.2	257.3	260.1	310.4	
- Integro Food	528.3	435.4	441.6	454.4	
Total sales revenue	818.5	692.7	701.7	764.8	439.0
EBITDA					
- Gardner Smith Group	31.7	25.7	32.2	32.9	
- Integro Food	40.2	30.4	40.0	30.7	
Total EBITDA	71.9	56.1	72.2	63.6	33.1
Depreciation and amortisation	(17.6)	(18.8)	(20.9)	(20.1)	(9.3) ⁸⁶
EBIT	54.3	37.3	51.4	43.5	23.8
Capital Expenditure	20.8	33.3	20.5	19.0	8.7
Statistics					
EBITDA margin	8.8%	8.1%	10.3%	8.3%	7.5%
EBIT margin	6.6%	5.4%	7.3%	5.7%	5.4%

Source: GrainCorp and Grant Samuel analysis

The financial performance prior to acquisition on 2 October 2012 has been prepared by GrainCorp on the following basis:

- the pro forma financial results for Gardner Smith Group (up to FY12):
 - exclude any contribution from edible oil and grain trading activities and any interest associated with oilseed inventory financing. This activity will continue within GrainCorp Oils;
 - exclude the grain and pulse procurement and trading activity which will be integrated into GrainCorp Marketing in future years; and
 - excludes earnings for the Fry Fresh/Fataway and BLM Feeds businesses acquired post 31 March 2012 (EBITDA of \$2 million);
- the pro forma financial results for Integro Foods:
 - are adjusted to:
 - exclude Goodman Fielder's out of home business in Australia and Asia Pacific fats and oils business which were not acquired by GrainCorp and other costs not incurred by Integro Foods as a standalone business; and
 - reflect the impact of the long term agreements entered into with Goodman Fielder and
- no allowance is made for the targeted integration synergies (\$7 million) or other strategic growth initiatives (see below).

During the period prior to acquisition:

- Gardner Smith Group's earnings fluctuated primarily as a result of movements in oilseed volumes and crush margins at Riverland Oils (particularly in 2009/10). Pacific Terminals' earnings are relatively stable (based on high capacity utilisation) and have been growing steadily in recent years due to increased capacity;
- Integro Food's earnings have fluctuated due to procurement strategies, commodity prices and volumes. Future variability is expected to be reduced as a result of enhanced procurement and hedging strategies; and

⁸⁶ Excludes amortisation of brand names, customers and other intangibles arising from the acquisition.



- capital expenditure includes both stay in business and growth capital expenditure incurred by the businesses (Pacific Terminals has invested \$25.9 million in new tanks over the last three years). Future stay in business capital expenditure is estimated at \$12-15 million.

The results for the half year to 31 March 2013 are in line with GrainCorp's expectations at the time of acquisition.

The integration of Gardner Smith Group and Integro Foods to create an "end to end" oilseed business is considered by management to be "on track". In this regard, GrainCorp Oils is targeting incremental EBITDA of around \$25 million by FY16 (at a cost of around \$115 million) from asset optimisation initiatives including:

- \$7 million in integration synergies during FY13 from integration and co-location of corporate functions and procurement and supply charge management. Costs associated with integration are estimated at \$17 million; and
- \$18 million in savings by FY16 from expansion of the crushing capability at the Numurkah plant and development of refining capability at that plant to optimise crushing and refining capacity. This initiative will reduce plant operating and supply chain costs and provide improved services to the growing domestic and export markets. Costs associated with this initiative are estimated at \$90-100 million.

In addition, a number of projects have been identified to expand the capacity at Pacific Terminal's Brisbane, Adelaide and Perth facilities to meet the growing demand for non-edible oil bulk product capacity. GrainCorp Oils is targeting incremental EBITDA of around \$7 million by FY16 from this initiative, at a cost of around \$43 million.

5.6 Allied Mills (60% interest)

Allied Mills is Australia's largest producer of flour for human consumption and one of Australia's largest manufacturers and distributors of bakery premixes and semi finished bakery products. It was formed in 2002 to acquire the flour milling and mixing assets of Goodman Fielder and is a joint venture between GrainCorp (60%) and Cargill (40%) with joint operational control. It has around 640 employees (full time equivalent).

Operations

Allied Mills operates seven flour mills, four mixing plants, three frozen product manufacturing facilities and a starch plant. It has leveraged its milling position to produce value added products such as bakery premixes and parbake (semi finished) bakery products including breads, rolls and donuts.

Allied Mills' production capability is located across Australia (except Tasmania and the Northern Territory) and is supported by a national warehouse and distribution capabilities. Annually, Allied Mills produces around 650 kt of flour plus 160 kt of mill run (a milling by-product) which is sold to the stockfeed market. Input grains are supplied to Allied Mills by GrainCorp and Cargill on a contestable basis. Most mills produce both bulk and bagged flour.

Allied Mills holds strong market positions supplying flour to food manufacturers, bakers and in-store bakeries and is competitive in the other market segments. Allied Mills has an exclusive agreement to supply flour to Goodman Fielder with the latest agreement entered into in November 2011. Allied Mills has also developed strong relationships to supply parbake products to the major Australian retailers and is pursuing opportunities to increase exports to New Zealand.

Capacity utilisation is relatively high across the production network and Allied Mills plans to increase utilisation further as well as improving productivity and efficiency. In recent years, Allied Mills has focused on:

- reducing costs by rationalising operations and increasing operating efficiency including:
 - commissioning a new 200 ktpa flour and maize mill at Picton in New South Wales in March 2009. This mill utilises the latest milling technology and is located on the main

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north south rail line increasing the efficiency of grain delivery. The Picton Mill was partly funded by divestment of land holdings following the closure of the flour mills at Summer Hill and Albury; and

- closing the Toowoomba Mill (which was badly damaged by flooding in January 2011) and using the insurance proceeds to partly fund the expansion of the mill at Tennyson in Queensland. The expanded mill is expected to be opened in mid 2013 and will further lower Allied Mills' network operating cost base;
- improving grain procurement processes and distribution systems, including the introduction of business wide sale and operations planning IT systems;
- increasing sales of higher margin speciality flours and premixes by increasing customer services and support (e.g. access to food coating technology for product development); and
- increasing its range of parbake products (e.g. it has acquired or developed frozen bread and donut capabilities) and consolidating these operations into specialty sites.

Financials

The reported financial performance of Allied Mills for the five years ended 30 September 2012 is summarised below:

Allied Mills - Financial Performance as Reported (\$ millions)					
	Year ended 30 September				
	2008 actual	2009 actual	2010 actual	2011 actual	2012 actual
<i>Flour volumes (kt)</i>	650.9	671.4	628.1	634.3	654.6
Sales revenue	502.9	507.5	414.0	445.2	442.8
EBITDA	44.2	46.9	45.2	40.4	42.3
Depreciation and amortisation	(8.8)	(12.7)	(13.3)	(13.2)	(14.0)
EBIT	35.4	34.2	31.9	27.2	28.3
Net interest expense ⁸⁷	(9.1)	(11.2)	(11.0)	(11.0)	(10.8)
Other income/(expenses)	0.1	0.1	(0.4)	(0.3)	-
Non-recurring items (net)	(2.2)	-	-	2.2	17.5
Operating profit before tax	24.2	23.1	20.5	18.1	35.0
Income tax expense	(6.1)	(6.8)	(5.1)	(4.5)	(10.2)
NPAT	18.1	16.3	15.4	13.6⁸⁸	24.7⁸⁸
Statistics					
<i>EBITDA growth</i>	(6.9%)	6.1%	(3.7%)	(10.6%)	4.8%
<i>EBIT growth</i>	(6.6%)	(3.5%)	(7.0%)	(14.5%)	4.1%
<i>EBITDA margin</i>	8.8%	9.2%	10.9%	9.1%	9.6%
<i>EBIT margin</i>	7.1%	6.7%	7.7%	6.1%	6.4%
<i>Sales revenue per flour tonne</i>	\$777.62	\$755.81	\$659.14	\$701.97	\$676.40
<i>EBITDA per flour tonne</i>	\$67.96	\$69.88	\$71.96	\$63.71	\$64.66

Source: GrainCorp and Grant Samuel analysis

Analysis of Allied Mills' operating performance is complicated by recent corporate initiatives (e.g. the acquisition of the Yatala Parbake Factory in 2009, the commissioning of the Picton Mill in March 2009 and the subsequent closure of the mills at Summer Hill and Albury) and the impact of external factors (e.g. the closure of the Toowoomba Mill in 2011). Since 30 September 2013 Allied Mills has acquired a bread facility at Tullamarine, Victoria and a starch/food ingredients facility at Tamworth, New South Wales in support of its value add products strategy.

The decline in sales volume and revenue in FY10 reflects the loss of low margin business in a competitive market including as a result of the closure of some food manufacturers. Profit

⁸⁷ Net interest includes interest relating to commodity inventory funding and interest on shareholder loans.

⁸⁸ If non-recurring items (net) are excluded NPAT decreases to \$12.1 million and \$12.5 million for 2011 and 2012 respectively.

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margins have increased in recent years reflecting changes in the product mix towards sales of value added products and increased efficiency. These positive influences have been temporarily offset by lower margins for mill run (due to surplus feed grain supply) and a low initial contribution from the new “start up” parbake products.

Allied Mills expects further improvement in profitability as a consequence of a range of initiatives currently underway including the expansion of Tennyson Mill (due to be commissioned mid 2013) and the expansion of its parbake product offering at the Yatala facility and the newly acquired bakery facility at Tullamarine in Victoria.

The increase in depreciation expense in FY09 reflects the commissioning of the Picton Mill (cost \$97 million). The expansion of the mill at Tennyson (which is due to be completed in mid 2013) is expected to increase depreciation expense by approximately \$2 million per annum.

Other income/(expenses) comprises gains/(losses) on sale of assets. Non recurring items (net) reflect asset impairment charges and, in FY11 and FY12, insurance proceeds relating to the Toowoomba Mill.

For the six months ended 31 March 2013, Allied Mills EBITDA increased from \$12 million to \$13 million (+8%) while GrainCorp’s share of net profit increased from \$4.2 million to \$5.2 million.

Financial Position

The financial position of Allied Mills as at 30 September 2012 is summarised below:

Allied Mills - Financial Position (\$ millions)	
	As at 30 September 2012
Debtors and prepayments	73.7
Inventories	90.7 ⁸⁹
Creditors, accruals and provisions	(45.0)
Net working capital	119.4
Property, plant and equipment (net)	226.3
Goodwill	4.9
Other intangible assets (net)	1.6
Deferred tax liabilities (net)	(4.8)
Other assets (net)	3.1
Total funds employed	350.5
Cash and deposits	13.5
External borrowings	(98.6)
Interest rate derivatives (net)	(1.1)
Loans from shareholders	(31.8)
Net borrowings	(118.0)
Net assets attributable to Allied Mills shareholders	232.5⁹⁰

Source: GrainCorp and Grant Samuel analysis

Property, plant and equipment (net) includes \$16.1 million capital works in progress primarily for the expansion of the Tennyson Mill in relation to which a further \$32 million is expected to be spent prior to commissioning in mid 2013. In addition, Allied Mills has surplus land adjacent to the Picton Mill which is held at cost.

Other intangible assets (net) comprise acquired licences and customer contracts which are being amortised. Other assets (net) include:

- a 50% interest in Allied Bowman Ingredients Pty Limited, a food coating business joint venture with United Kingdom company Bowman Ingredients which is recognised as an

⁸⁹ Including \$57.9 million of inventory pledged as security for the bank loan facility.

⁹⁰ At 31 March 2013 GrainCorp disclosed that the net assets of Allied Mills had increased to around \$241 million.

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equity accounted investment;

- property, plant and equipment which is subject to a contract of sale;
- investments in listed entities recognised at fair value; and
- a non current employee entitlement provision.

Future stay in business capital expenditure is estimated to be approximately \$4 million per annum. This compares to FY12 depreciation of approximately \$14 million per annum which reflects the commissioning of the Picton Mill (cost \$97 million) in 2009. In October 2012, Allied Mills acquired the business of Potts Bakeries for \$12.5 million, inclusive of land. The expansion of the mill at Tennyson which is due to be completed in mid 2013 is being partly funded by insurance proceeds relating to the now closed Toowoomba Mill.

Allied Mills' borrowings fluctuate with the season, peaking in January/February following harvest when the business is accumulating wheat for future production purposes and reduce over the year to December (in advance of harvest). At 30 September 2012, Allied Mills' external borrowings were \$98.6 million:

Allied Mills – External Borrowings (\$ millions)	
Facility	Amount Drawn as at 30 September 2012
Bank overdraft (unsecured)	10.0
Bank term loan (secured)	30.0
Bank loan facility (secured)	57.9
Finance leases	0.7
Total	98.6

Source: GrainCorp and Grant Samuel analysis

The bank loan facility is available to Allied Mills for the acquisition of inventory (and is fully secured by the inventory). Allied Mills uses swap contracts to hedge the interest rate risk that arises on variable rate borrowings. At 30 September 2012, interest rate derivatives were \$1.1 million (liability).

GrainCorp and Cargill have extended shareholder loans to Allied Mills totalling \$31.8 million. These loans are in proportion to their respective shareholdings (GrainCorp \$19.1 million and Cargill \$12.7 million) and are at market rates of interest.

Under the Australian tax consolidation regime, Allied Mills and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 September 2012, Allied Mills had no carried forward income tax or capital losses and \$35 million of accumulated franking credits.

Investment Structure

Allied Mills has 118,200,005 ordinary shares on issue including 70,920,003 Class A ordinary shares and 47,280,002 Class B ordinary shares. The Class A shares are held by GrainCorp and the Class B shares are held by Cargill. The Class A and Class B shares have the same rights and privileges as, and rank in all respects *pari passu* with, each other. Consequently, GrainCorp's investment in Allied Mills equates to a 60% economic interest.

The operations of Allied Mills are governed by a shareholders' agreement under which:

- GrainCorp and Cargill have equal voting and management rights (notwithstanding their economic interests);
- Allied Mills is responsible for determining its grain and services requirements and, subject to shareholder approval, procures gains and services from its shareholders at arm's length rates and terms; and
- pre-emptive rights exist (including on a change of control of either shareholder) based upon an independent valuation.



6 Valuation of GrainCorp Limited

6.1 Summary

GrainCorp has been valued in the range \$2,917-3,199 million which corresponds to a value of \$12.74 to \$13.97 per share. The valuation represents the estimated full underlying value of GrainCorp assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect GrainCorp shares to trade on the ASX in the absence of a takeover offer (or takeover speculation).

The value for GrainCorp is the aggregate of the estimated market value of GrainCorp's operating business units together with other non-trading assets and liabilities less external borrowings. The valuation is summarised below:

GrainCorp - Valuation Summary (\$ millions)			
	Report Section Reference	Value Range	
		Low	High
Business Units			
Storage & Logistics	6.6.1	1,600.0	1,700.0
GrainCorp Marketing (net of inventory funding)	6.6.2	250.0	275.0
GrainCorp Malt	6.6.3	850.0	900.0
GrainCorp Oils	6.6.4	472.0	472.0
Business development initiatives	6.7	150.0	200.0
Corporate overheads (net of savings)	6.8	(225.0)	(200.0)
Enterprise value		3,097.0	3,347.0
Allied Mills (60% interest)	6.10	160.2	187.2
Other assets and liabilities	6.11	(10.1)	(5.6)
Net borrowings (adjusted)	6.12	(330.0)	(330.0)
Value of equity		2,917.1	3,198.6
Fully diluted shares on issue (millions)	6.13	228.9 ⁹¹	
Value per share		\$12.74	\$13.97

The value attributed to each of GrainCorp's business units is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA, EBIT and NPAT) and discounted cash flow ("DCF") analysis. The nature of GrainCorp's business means that earnings in business units such as Storage & Logistics can fluctuate materially from year to year depending on seasonal and climatic conditions and their impact on the various crops the business units handle. Similarly, the earnings of GrainCorp Marketing fluctuate depending on market conditions and other factors. Accordingly, for these businesses, greater emphasis was placed on multiples of estimates of normalised earnings reflecting typical or average crop levels rather than earnings in any one particular year.

While each business unit has been individually valued, GrainCorp operates an integrated "end to end" business focussed on three dry climate grains (wheat, barley and canola). Accordingly, it is also appropriate to consider GrainCorp as a single business in which case overall multiples for the total business are also an important consideration in the valuation.

The values also take into account:

- the strategic value of GrainCorp's network (storage, rail and port facilities). Although Australia is not a major producer of grains by global standards (around 2%), it is a significant exporter

⁹¹ Based on 228,855,628 shares on issue plus the 47,253 shares that would need to be issued assuming all restricted shares and performance share rights vest.



(around 11% of international trade in wheat and coarse grains). GrainCorp provides the opportunity for international grain companies to acquire control of an “end to end” network that handles around 75% of eastern Australian grain production as well as marketing around 30% of exports from eastern Australia. There are no other comparable acquisition opportunities, particularly following the acquisitions of AWB’s commodity business by Cargill and ABB Grain Limited (“ABB”) by Viterro (now Glencore). The GrainCorp grain handling asset base is widely regarded as impossible to replicate and it has a very strategic position in port terminals (seven of the eight major port terminals in eastern Australia). In a rapidly consolidating industry and with a number of substantial international grain companies without a major presence in Australia, there are clear strategic attractions for a successful acquirer; and

- the value inherent in GrainCorp’s portfolio of initiatives that are either underway or being implemented over the next four years (see Section 5.1). GrainCorp estimates that these initiatives will generate additional EBITDA of around \$110 million per annum (after incremental capital expenditure of \$270 million). Grant Samuel separately has allowed for the enhanced value that should accrue from some of these specific projects, on a risk adjusted basis, where these projects represent step changes in the business outside the ordinary course (i.e. they represent more than normal continuous business improvement). The remaining initiatives have not been directly valued but do serve to underpin expectations of future earnings growth and the multiples of current earnings.

6.2 Alternative Valuation Methodologies

Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm’s length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.



The usual approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. However, share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by sharemarket investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
 - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
 - strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
 - the company's own performance and growth trajectory;
 - rationalisation or synergy benefits available to the acquirer;
 - the structural and regulatory framework;
 - investment and sharemarket conditions at the time; and
 - the number of competing buyers;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels;



- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these synergies, the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings; and
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:
 - EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for average capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
 - businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.



Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a “cross check” of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

6.3 Valuation Approach for GrainCorp

Overview

Grant Samuel’s valuation of GrainCorp has been estimated by aggregating the estimated market value of its operating business units together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the operating business units have been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The valuation of GrainCorp is appropriate for the acquisition of the company as a whole and, accordingly, incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in GrainCorp could be expected to trade on the sharemarket. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

Specific Approach Adopted

Grant Samuel has adopted an approach to the valuation of GrainCorp that reflects its situation and characteristics:

- each of GrainCorp’s business units has been valued separately because each has different business dynamics and drivers or particular circumstances that requires different approaches. For example:
 - GrainCorp Marketing carries significant inventories which are financed using dedicated short term facilities that requires an adjustment to normal valuation methods (see below); and
 - the two businesses that comprise GrainCorp Oils were only acquired in October 2012 so the acquisition cost is a reasonable basis for the arm’s length value of these businesses.

At the same time:

- GrainCorp operates an integrated business within a fairly narrow set of activities. It operates across three core crops (wheat, barley and canola), which are to some extent substitutable (for farmers and customers and in handling) and the three components of the business (storage and logistics, marketing and processing) can be seen simply as elements within an “end to end” value chain for each product; and
- the primary reference point for valuation is the earnings multiples observed in recent acquisitions of other companies operating in the grains (and related industries). Generally, these companies operated across various products and multiple parts of the value chain (including processing). The multiples therefore represent “blended” multiples rather than multiples for individual businesses (such as, say, marketing or storage and logistics). There are few, if any, transactions involving businesses in just one part of the grain industry.



Accordingly, the overall multiples implied by the aggregate valuation are also important in considering and assessing the value of GrainCorp;

- the earnings of the Storage & Logistics business unit are heavily dependent on the size of the annual eastern Australian grain harvest (primarily wheat). The harvest size can be volatile. This issue is clearly evident from GrainCorp's performance over the past few years with severe droughts decimating the harvest in both 2006/07 and 2007/08. In contrast, the 2010/11 and 2011/12 harvests were at very high levels while the current year is close to normal. Similarly, the earnings of GrainCorp Marketing fluctuate (albeit to a lesser extent) depending on market conditions and other factors.

The value of the business is therefore not so much a function of the level of earnings in any particular year but instead is more a function of the level of earnings that could be expected to be generated in a "normal" or "average" year (also referred to as "through the cycle" earnings). An estimate of these earnings for the relevant businesses is set out in Section 6.4. In forming its view on value, Grant Samuel has put more emphasis on multiples of "normalised" earnings than multiples of earnings in individual years. However, it is important to recognise that these are high level estimates and relatively crude. In particular, it is difficult to determine a "normal" harvest with any degree of reliability given the extremes of weather that have been experienced over the past decade, changes in underlying weather patterns and the ongoing changes in area under crop and yields. In reality, every harvest is different and even those in the normal range have their own unique characteristics (regional variations, timing, quality etc.). In addition, it is difficult to assess the precise extent to which the "gamechanger" business development initiatives are reflected in estimates of normalised earnings. Accordingly, such analysis needs to be treated with a significant degree of caution. That said, this analysis still provides more useful valuation insight than reliance on any one particular year.

Regard has also been had to:

- implied multiples based on broker forecasts, particularly for FY14 and later as estimates will likely be based on assumptions as to more typical seasonal conditions and "carry in" levels (forecasts for FY13 will reflect the latest estimates for the 2012/13 harvest which is largely complete and the carry in levels at 30 September 2012); and
- multiples based on average earnings for the last four years although:
 - the four year average is not necessarily representative of a typical year; and
 - they reflect a business that has changed materially over the last four years following deregulation of Australian wheat exports in July 2008; and
- while EBITDA or EBIT multiples are useful parameters for most of GrainCorp's business units, this does not apply to GrainCorp Marketing. An inherent part of this business is acquiring, holding and financing grain stocks (through dedicated inventory financing facilities) for on sale to customers. The key issues are that:
 - interest costs on holding inventory are recovered through the ultimate selling price of the grain. Accordingly, interest expense and trading profit are not independent variables; and
 - inventory and debt levels fluctuate materially during the year depending on the seasonal cycle, tactical buying decisions and customer requirements. Debt at any particular point in time may be unrepresentative of average debt across the year.

Accordingly, standard "capitalisation of EBITDA less debt" approaches are likely to produce erroneous valuations. Grant Samuel has therefore:

- excluded inventory financing debt (Marketing and Oils) from its calculation of net borrowings to deduct from GrainCorp's overall enterprise value. Net borrowings for valuation purposes includes only "core" debt; and
- treated interest expense relating to inventory financing as part of cost of goods sold. The primary earnings parameters used for valuation are therefore multiples of business unit PBTDA, PBT and NPAT.

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This approach is more in line with valuation approaches used for financial institutions and trading businesses where interest is an integral part of the business rather than a separate capital structure decision.

The same issue applies to the marketing activities of GrainCorp Oils, albeit to a lesser extent. Inventory funding debt relating to GrainCorp Oils (\$98 million at 31 March 2013) has been excluded from GrainCorp's net borrowings for valuation purposes. The pro forma historical earnings for GrainCorp Oils excludes any contribution from edible oil and grain trading (i.e. assumes zero profit after related interest expense); and

- it is appropriate to recognise the value inherent in GrainCorp's portfolio of initiatives that are either underway or being implemented over the next four years (see Section 5.1). GrainCorp estimates that these initiatives will generate additional EBITDA of around \$110 million per annum (after incremental capital expenditure of \$270 million). Grant Samuel has separately allowed for the enhanced value that should accrue from some of these specific projects, on a risk adjusted basis, where these projects represent step changes in the business outside the ordinary course (i.e. they represent more than normal continuous business improvement). The remaining initiatives have not been directly valued but do serve to underpin expectations of future earnings growth and the multiples of current earnings.

Other

Other factors relevant to Grant Samuel's valuation approach included:

- for business units such as Storage & Logistics and Marketing where earnings and cash flows are largely a function of harvest size (which swings substantially from year to year with little predictability) and other factors, DCF analysis is of limited value. However, Grant Samuel has used DCF analysis as a high level cross check for the valuation of businesses such as Malt and Allied Mills which are more processing orientated businesses; and
- amortisation includes a charge for the amortisation of customer relationships and trade names (\$12 million in FY12) in GrainCorp Malt. These charges are the result of acquisition accounting and are not, in economic terms, the same as depreciation of fixed assets or amortisation of, say, software. In calculating EBIT for GrainCorp Malt and GrainCorp Oils, Grant Samuel has excluded this component from the depreciation and amortisation charge so that implied multiples are more consistent with comparable companies and transactions (see Section 4.2).

6.4 Normalised Earnings

Storage & Logistics

Grant Samuel has estimated the normalised EBITDA of Storage & Logistics to be \$168 million. The estimate was based on the following assumptions:

- a normal grain harvest (wheat, barley, sorghum and canola) for GrainCorp's coverage area (eastern Australia) of 17-18 mtpa. This estimate is based on:
 - discussions with GrainCorp management;
 - analysis of production over the past ten seasons. Based on statistics compiled by ABARES from 2001/2 to 2011/12:
 - average production is 16 mtpa and median production is 17 mtpa; and
 - average production is 17.5 mtpa excluding drought years and the exceptional 2010/11 harvest; and
 - allowing for growth in area planted with grains over time and improvements in yield (albeit with substantial variation between years). Underlying grain production is estimated to have increased by approximately 2.5-3.0% per annum over the past 20 years (i.e. 15 mtpa produced 10 years ago is equivalent to a higher volume today);

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- GrainCorp market share⁹² of 57-60%. This assessment takes into account:
 - GrainCorp's market share in the past two seasons of approximately 60%; and
 - GrainCorp's weighted average market share of 56% since 2003/04;
- total country receivals of 9.7-10.8 mtpa (17-18 mtpa x 58-60%) and throughput (as defined by GrainCorp) of 19.1-21.5 mt⁹³; and
- EBITDA of \$8.00-8.50 per tonne of throughput. This assumption is based on:
 - discussions with GrainCorp management;
 - review of the FY13 Estimate; and
 - analysis of historical performance. Over the past four years, adjusted EBITDA per throughput tonne has varied between \$5.28 and \$9.09 with a simple average of \$7.81 and a weighted average of \$8.05:

Storage & Logistics – EBITDA per tonne of Throughput (\$)				
	Year ended 30 September			
	2009	2010	2011	2012
EBITDA per tonne of throughput	\$9.09	\$5.28	\$8.08	\$8.78

Source: Section 5.2

In general, there is a positive correlation between crop size and EBITDA per tonne as increased crop size improves efficiencies particularly in terms of port utilisation. At the same time, the level of carry-in (particularly relative to carry-out) also has a significant impact on EBITDA per tonne.

The low level of EBITDA per tonne in FY10 reflected the weaker (below average) harvest and a well below average market share. FY11 saw a record harvest and above average market share but earnings were adversely affected by the low carry-in and high carry-out. In contrast, FY12 was boosted by the high carry-in but the result did include a number of one off write offs; and

- recognition of the costs savings and business development initiatives (including through capital expenditure) that are being implemented by GrainCorp as part of its wider business development program (and which were not present in earlier years).

While the use of an overall EBITDA per tonne parameter is relatively crude, it is unlikely that a more detailed analysis (e.g. separate parameters for storage, rail and ports) would produce a more reliable or robust number given:

- variations in regional crop production performance from year to year;
- the changing structure of the cost base (increasing variabilisation of operating costs); and
- the somewhat arbitrary way in which overheads and price incentives have been allocated between the various sub units of Storage & Logistics. GrainCorp manages Storage & Logistics with a focus on overall EBITDA rather than segment results.

The resultant normalised EBITDA range is \$153-182 million with a midpoint of \$168 million. This level of EBITDA is not materially inconsistent with analyst consensus forecasts for FY14 and FY15 (although the forecasts vary). Assuming depreciation of \$55 million, normalised EBIT is approximately \$113 million.

⁹² Country receivals as a proportion of eastern Australian grains production.

⁹³ Assumes constant grain carry-in and carry-out (3.0 mt), domestic outload (6.0 mtpa), port receivals (12% of production) and non-grain shipments (2.2 mtpa).

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GrainCorp Marketing

Grant Samuel has estimated the normalised PBTDA of GrainCorp Marketing to be \$30.3 million. The estimate was based on the following assumptions:

- sales volumes of 5.5-6.0 mtpa based on sales volumes over the past two years (5.5 mt in FY11 and 6.9 mt in FY12), adjusted for the high level of the crop in those years. An accurate “snapshot” of normal volumes is difficult given the radical changes in the marketplace following deregulation of wheat exports in July 2008. During FY09 and FY10, GrainCorp was developing and rapidly growing its wheat export marketing activities and therefore volumes in those years are not indicative of current normalised volumes. Management believes that the structure of the wheat export market (i.e. market share of the key participants) has now reached a point of reasonable stability. Other factors relevant to the sustainable volume level are:
 - the changes to Australian port protocols that will enable GrainCorp Marketing (and others) to obtain guaranteed longer term port access. Marketing volumes in some years have been adversely affected to some extent by an inability to obtain port capacity from time to time because it has been taken by other traders; and
 - the flow through effects of the recent international expansion of the marketing office network to include London, Hamburg (opened 2011) and Calgary (opened 2012); and
- PBTDA of \$5.00-5.50 per tonne. This assumption is based on:
 - discussions with GrainCorp management;
 - review of the FY13 Estimate; and
 - analysis of historical performance. Over the past four years, adjusted PBTDA per tonne has ranged from \$5.88 to \$8.27 with an average of \$6.81:

GrainCorp Marketing – PBTDA per Tonne (\$)				
	Year ended 30 September			
	2009	2010	2011	2012
PBTDA per tonne	\$7.05	\$5.88	\$8.27	\$5.97

Source: Section 5.3

The high point of \$8.27 in FY11 reflected a number of positive trading profits that are assumed to be non-recurring. The level of \$5.97 per tonne in FY12 included some one-off costs (e.g. costs associated with expanding the international office network).

The resultant normalised PBTDA range is \$27.5-33.0 million with a midpoint of \$30.3 million. Profit before tax is \$29.9 million allowing for depreciation of \$0.4 per annum (as per the FY12 result) and NPAT is \$20.9 million assuming a 30% corporate tax rate.

Analysts generally only forecast EBITDA or EBIT for GrainCorp Marketing (i.e. before marketing interest expense). Median forecasts are generally in the range of \$45-50 million (before interest) across FY13 and FY14. Average interest cost over the last four years is \$18 million giving implied PBTDA of around \$27-32 million, broadly consistent with Grant Samuel’s estimate of normalised PBTDA.

Limitations

The estimates of normalised earnings are not, and should not be construed as, forecasts of earnings whether for any particular year or otherwise. They have been prepared only for the purposes of Grant Samuel’s valuation analysis to provide an indication of the earnings capacity of the respective business units under normal seasonal conditions. Further, the analysis is subject to significant limitations. The analysis is high level and none of the individual parameters can be determined with reliability.

6.5 Market Valuation Parameters

6.5.1 Sharemarket Evidence

The following table sets out the implied EBITDA, EBIT and price earnings multiples for a range of listed comparable agribusiness companies with operations in the global grains sector. It excludes companies that are more focussed on rural services (retail) or other agricultural products (e.g. fertilisers) (such as Agrium Inc.):

Sharemarket Ratings of Selected Listed Grain Companies										
Entity	Market Capitalisation (millions)	EBITDA Multiple (times)			EBIT Multiple (times)			Price Earnings Multiple (times)		
		2012	2013	2014	2012	2013	2014	2012	2013	2014
North America										
ADM	US\$21,790	9.0	8.5	7.5	13.0	12.4	10.2	14.4	13.8	11.1
Bunge	US\$11,305	10.2	6.9	6.7	15.7	9.4	8.9	17.4	9.7	8.9
Ingredion	US\$5,242	7.3	7.0	6.5	9.5	9.0	8.2	11.5	11.4	10.4
The Andersons	US\$1,007	9.3	9.0	7.8	12.7	11.9	9.7	12.6	13.4	10.9
Alliance Grain Traders	C\$288	16.3	10.2	8.4	24.9	13.1	10.3	32.1	15.7	9.0
Asia										
Wilmar	S\$20,731	12.0	9.0	8.2	15.9	11.5	10.4	13.4	11.5	10.3
Noble Group	S\$6,847	8.3	7.6	6.8	11.2	9.1	7.7	11.2	9.4	7.7
Olam	S\$3,956	11.8	9.9	8.7	13.8	11.7	10.2	11.6	10.3	8.6

Source: Grant Samuel analysis (see Appendix 2)

A more detailed analysis of these companies is set out in Appendix 2.

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices as at 20 June 2013 and therefore do not include a premium for control;
- all companies have a 31 December year end except Olam which has a 30 June year end. The multiples for Olam have been adjusted to a notional December year end basis;
- the range of outcomes across the comparable companies is relatively wide although excluding some of the outliers does present a more consistent picture;
- the comparable companies virtually all encompass a range of activities across the grains sector including handling, processing and marketing and cover a diversified range of products including non grain products. Accordingly, the multiples provide limited guidance in relation to the individual business units of GrainCorp although they may be more useful in relation to the analysis of overall multiples for GrainCorp as a whole;
- a number of the businesses take substantial open trading positions as part of their activities. In contrast, GrainCorp Marketing takes only limited flat price risk and instead focuses on basis risk trading; and
- virtually all the companies hold material inventories which are partly (if not mostly) financed through debt facilities. Moreover:
 - these inventories and associated debt levels fluctuate materially and accordingly debt at a particular time may not be representative of debt across the year (as reflected in interest expense); and
 - some companies disclose their readily marketable inventories (and treat them as cash equivalents) while others do not, making comparison difficult.

In these circumstances, it is arguable that price earnings multiples are a better way of assessing value for these businesses (as it captures the effective interest cost across the year).



Having regard to the issues above, the sharemarket evidence provides limited insight into appropriate multiples for the acquisition of a controlling interest in GrainCorp or the valuation of its constituent businesses. To the extent, there is useful guidance:

- typical forward EBIT multiples (excluding a control premium) are around 9-12 times but higher in Asia; and
- median forward EBITDA multiples (excluding a control premium) are around 7-9 times (but range from 7 to 10).

6.5.2 Key Comparable Acquisitions

There have been a significant number of acquisitions in the agribusiness sector that may provide some guidance as to appropriate acquisition multiples for GrainCorp's business units. However, there are four transactions that stand out as being both recent and highly relevant to GrainCorp as they involve companies that compete directly with GrainCorp or are engaged in the same basic activities. They are:

- **the acquisition by Viterra of ABB in 2009:** ABB's business operations comprised:
 - grain handling including storage, rail and port operations. ABB was the third largest grain handler in the Australian market (after GrainCorp and CBH) but its primary focus was South Australia where it handled 80 to 85% of the crop (the vast majority of which was exported). In a typical year, ABB handled approximately 5.5-6.0 mt;
 - grain marketing, initially concentrated on barley but expanded into wheat following deregulation of wheat exports in 2008. ABB typically marketed approximately 6 mt;
 - malt manufacturing in Australia. Joe White Malting was the largest Australian maltster and had a share of the global traded malt market of more than 7%; and
 - rural services supplying farm inputs (including financial services and marketing output (e.g. wool broking));
- **the acquisition by Cargill of AWB's commodity business in 2010:** This transaction followed shortly after Agrium had made a successful takeover for AWB. Agrium retained AWB's rural services business (Landmark). AWB's commodity business operations comprised:
 - marketing of Australian grain. Following deregulation in 2008, AWB was no longer the "single desk" exporter of Australian wheat and operated in competition with other marketers (including GrainCorp);
 - grain logistics including storage, handling and freight as well as various investments including milling;
 - pool management services and harvest finance; and
 - international commodity management (marketing and trading grain internationally);
- **the acquisition by Glencore of Viterra in 2012:** In addition to ownership of ABB, Viterra's business operations comprised:
 - handling and marketing of grains from western Canada. Viterra had a market share of over 40% and shipped over 10 mt of grain;
 - the manufacture, distribution and retailing of crop inputs in Canada ("Agri-Products");
 - oat milling and barley malting in North America; and
 - other businesses including livestock feed mills and financial products; and



- **the acquisition by Marubeni Corporation (“Marubeni”) of Gavilon Holdings LLC (“Gavilon”) in 2012⁹⁴:** Gavilon’s business comprised:
 - grain storage and handling, primarily in the United States but also Australia, Ukraine and Brazil. Gavilon was the third largest grain handler in the United States with 140 sites providing 8.3 million tons of storage and handling 30 million tons per annum. Grain handling generated approximately 62% of EBITDA⁹⁵;
 - fertiliser terminals, storage and blending facilities at 59 sites in the United States and 15 locations in Mexico, South America and Africa (18% of EBITDA⁹⁵); and
 - energy trading including 8 million barrels of crude oil storage capacity and 10 billion cubic feet of natural gas storage (20% of EBITDA⁹⁵).

These four transactions have been used as the primary reference point for appropriate multiples for the valuation of GrainCorp. However, analysis of these transactions is not straightforward for a number of reasons including:

- seasonal fluctuations in working capital and debt;
- general volatility in debt levels because of trading activities;
- seasonal variations in earnings;
- the mix of businesses; and
- limited information.

Grant Samuel has made a number of adjustments and assumptions in order to determine the underlying multiples of normalised earnings (EBITDA and EBIT) for these transactions as set out below⁹⁶:

ABB / Viterro (May 2009)

- the offer consideration involved three alternatives. For the purposes of analysis, the offer price is based on the value of the default alternative on the day of announcement (\$9.26 per share). On this basis the total consideration is \$1,609 million;
- debt is based on the independent expert’s assessment of average net debt across the year (\$400-500 million) rather than the latest balance date;
- earnings in the year ended 30 September 2007 were severely impacted by drought, producing one of the lowest ever Australian grain crops. While earnings improved materially in 2008 and were expected to continue to strengthen in 2009, they reflected receivables at levels still well below historical norms. Multiples based on these earnings parameters are therefore overstated. Accordingly, forecast earnings for the year to 30 September 2010 have been used as the best proxy for normalised earnings. The independent expert’s report stated that broker consensus for 2010 was EBITDA of \$210 million. The forecasts appear to generally be based on crop sizes broadly consistent with ABB’s average of 5-6 mtpa. Grant Samuel has assumed depreciation of \$35 million. This level of earnings is consistent with estimates by analysts of “sustainable” earnings for ABB; and

⁹⁴ In June 2013, Marubeni announced that it will not be acquiring the energy storage assets of Gavilon.

⁹⁵ Broker estimate.

⁹⁶ One approach to dealing with the debt/trading stock issue would be to deduct debt associated with inventory holdings from net borrowings and to include associated interest expense as part of the cost of sales in a similar manner to that presented by GrainCorp. However, neither ABB nor Viterro disclosed information on readily marketable inventories or associated debt levels and interest expense that would enable such adjustments to be made reliably. Accordingly, these adjustments have not been made. In any event, Grant Samuel does not believe that it would make a material difference to the measured multiples (assuming the average net debt is a reasonable reflection of the effective average across the year).

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- Viterra announced at the time of the transaction that it anticipated approximately \$30 million of synergies from the acquisition (associated costs were not disclosed).

On the basis of this analysis, the adjusted multiples for ABB are:

ABB – Implied Multiples		
Parameter	Without synergies	With synergies
EBITDA	9.6-10.0	8.4-8.8
EBIT	11.5-12.1	9.8-10.3

As these are multiples for the whole business (including the lower rated rural services businesses), the effective multiples for the grain handling, marketing and malt businesses would be slightly higher.

AWB's Commodity Business / Cargill (December 2010)

- Cargill's consideration for AWB's commodity business is stated to be approximately \$870 million but it did not include certain assets within the commodities business that Agrium proposed to sell separately. Agrium attributed a value of \$55 million to these businesses (i.e. total value for AWB's combined commodities business units of \$925 million);
- reported earnings for the year to 30 September 2010 for the combined commodities business units were EBITDA of \$80 million and EBIT of \$70 million (including income from associates (\$5 million) and before corporate costs). These earnings include net interest income on pass through harvest finance debt, however, this does not materially distort the analysis.

The results, particularly for grain marketing were significantly adversely affected by a variety of factors which included reduced volumes (the 2009/10 crop was down on the previous year, albeit up substantially from the earlier drought affected years).

It is not possible to reliably assess a normalised level of earnings for AWB's combined commodities business units although the independent expert on the transaction assessed a higher level of earnings for the grain marketing business unit (\$25-30 million compared to \$5 million generated for 2010) for valuation purposes based largely on the average of the previous four years. Whether this is realistic in view of the increasing competition in the marketing of Australian wheat is unclear.

For the purposes of the analysis, Grant Samuel has estimated a "normalised" earnings level for AWB's combined commodities business units by adding \$20 million to 2010 earnings; and

- on the basis of this analysis, the adjusted multiples implied for AWB's commodity business are:

AWB Commodity Business – Implied Multiples		
Parameter	As Reported	Normalised
EBITDA	11.6	9.3
EBIT	13.2	10.3

AWB's commodity business largely involved the marketing and trading of grain. The handling component (i.e. infrastructure type business) was a much smaller proportion than in the other two transactions. This may explain the slightly lower multiple.

If a portion of total corporate costs (\$28 million at the EBIT level in 2010) was allocated to the commodity business, the implied multiple would be higher. The

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earnings and multiples exclude any synergy benefits able to be extracted by Cargill (which are likely to have been material); and

Viterra / Glencore (March 2012)

- average net debt is assumed to be C\$1.1 billion based on the average of the four quarters ending 31 January 2012 (C\$1.14 billion) and 31 July 2012 (\$1.04 billion);
- Viterra's grain volumes and earnings exhibit lower volatility than in Australia. However, earnings do fluctuate. Multiples were calculated based on actual results to 31 October 2012 which for businesses apart from Agri-Products was:
 - approximately 5-10% up on results to 31 October 2013;
 - broadly in line with broker consensus forecasts at the time of announcement; and
 - not out of line with analyst estimates of "normalised" earnings.
- Viterra expected C\$40-50 million of EBITDA benefits to arise from deregulation of the Canadian wheat industry (from 2014 onwards). This would have been factored into the price paid by any purchaser (although perhaps not to the full extent). Accordingly, multiples have also been calculated on a basis including these incremental earnings;
- Viterra incurred \$176 million of unallocated corporate costs in 2012 (at the EBIT level). Presumably some of these related to Agri-Products (and would have been eliminated on sale of the business). For the purposes of the analysis Grant Samuel has assumed \$50 million of corporate costs are allocated to Agri-Products;
- Glencore announced at the time of announcement that it had on sold:
 - the majority (stated to be 90%) of Viterra's Agri-Products business (including the Australian Agri-Products business) to Agrium for approximately C\$1.8 billion; and
 - 23% of Viterra's Canadian grain handling assets and certain other assets for \$0.8 billion to Richardson International Limited.

The effective multiple paid by Glencore for its share of Viterra is net of these transactions. However, limited information is available on the level of earnings that went with these businesses (and the residual retained by Glencore). An adjustment has been made for the Agri-Products sale based on reported divisional results for the division and assuming the total value for the Agri-Products business was C\$1.97 billion (grossing up Agrium's purchase price to a 100% value). This analysis should give an effective multiple for the total grain handling and processing businesses. The multiples are presented on a gross and net (i.e. ex Agri-Products) basis; and

- on the basis of this analysis, the adjusted multiples for Viterra are:

Viterra – Implied Multiples				
Parameter	Overall		Net of Agri-Products	
	2011	2012	2011	2012
EBITDA (as reported)	10.5	8.9	11.8	10.8
EBITDA (including deregulation benefits)	9.8	8.4	10.7	9.9
EBITDA (adjusting corporate costs)	9.7	8.4	10.6	9.8
EBITDA (adjusting corporate costs and including deregulation benefits)	9.2	8.0	9.7	9.0
EBIT (as reported)	14.1	12.1	17.1	16.1
EBIT (including deregulation benefits)	13.0	11.2	14.9	14.1
EBIT (adjusting corporate costs)	12.8	11.1	14.6	14.0
EBIT (adjusting corporate costs and including deregulation benefits)	11.9	10.4	13.0	12.4

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These multiples exclude any allowance for any synergy benefits able to be extracted by Glencore which are likely to have been material.

Marubeni / Gavilon (May 2012)

- Gavilon was a private company. No earnings history or estimates (or debt levels) for Gavilon were publicly disclosed. However, brokers reported that Marubeni management stated (in an investor call) that EBITDA was expected to be US\$600 million and would grow at approximately 2.5% per annum. Brokers also reported that Marubeni was assuming debt in the order of US\$1.7-1.9 billion; and
- in June 2013, Marubeni announced it would not be acquiring the energy storage business and would reduce the price (for the equity component) by \$1 billion. However, no details were released as to how debt would be allocated between business units or the EBITDA of the businesses to be acquired.

Interpretation

In summary, the relevant adjusted multiples for these four transactions are:

Key Comparable Transactions – Adjusted Implied Multiples				
Date	Target	Acquirer	EBITDA Multiple (times)	EBIT Multiple (times)
May 2009	ABB	Viterra	9.6-10.0	11.5-12.1
December 2010	AWB Commodities	Cargill	9.3	10.3
March 2012	Viterra ⁹⁷	Glencore	9.0-9.9	12.4-14.1
May 2012	Gavilon	Marubeni	9.0	na

In Grant Samuel's opinion, these three transactions clearly indicate that underlying EBITDA multiples for control of grain handling, marketing and processing businesses are in the order of 9-10 times normalised EBITDA (before synergies) and 12-14 times normalised EBIT (before synergies). Within this mix, higher multiples would be attributed to handling assets and lower multiples to marketing businesses.

However, at the same time it should be noted that:

- the calculations of multiples for transactions is always subject to uncertainty because of the lack of access to internal data (particularly forecasts). This problem is accentuated in the case of Marubeni/Gavilon because of the limited disclosure;
- the adjustments made by Grant Samuel are necessarily high level and also made without access to internal information; and
- the multiples relate to blended businesses and therefore may not necessarily be appropriate for individual components (e.g. Storage & Logistics or GrainCorp Marketing).

6.5.3 Other Acquisitions

The following table sets out implied parameters from a selection of other transactions involving activities in which GrainCorp participates (i.e. grain handling and marketing, flour milling, malt processing and oilseed processing) and the Australian agribusiness/soft commodities sector for which there is sufficient information to calculate meaningful valuation parameters:

⁹⁷ Net of Agri-Products. Low multiple includes corporate cost allocation adjustment and deregulation benefits. High multiple includes only deregulation benefit.

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Recent Transaction Evidence – Selected Global Agribusiness							
Date	Target	Acquirer	Consid- eration ⁹⁸ (millions)	EBITDA Multiple ⁹⁹ (times)		EBIT Multiple ¹⁰⁰ (times)	
				Historical	Forecast	Historical	Forecast
Grain Handling and Marketing							
Nov 06	Agricore	Saskatchewan Wheat Pool	C\$1,261	13.1	11.3	22.4	17.6
Flour Milling							
Dec 12	Champion Flour Milling	Nisshin	NZ\$51	na	na	4.1	na
Dec 08	Dover Industries	Parrish & Heimbecker	C\$132	10.9	na	17.5	na
May 07	Nitto Fuji Flour Milling	Mitsubishi Corporation	¥16,712	6.2	na	11.6	na
Dec 06	RHM	Premier Foods	£1,226	9.5	9.2	12.2	12.0
Mar 04	International Multifoods	J M Smucker	US\$516	10.3	na	14.1	na
Aug 02	Goodman Fielder's Australian Milling	Allied Mills	A\$233	6.7	5.3	9.4	6.8
Malt Processing							
Jul 11	Schill Malz	GrainCorp	€40	7.3 ¹⁰¹	8.3	na	na
Feb 10	Greencore's Malting Business	Boortmalt	€101	4.3	5.3	5.5	7.1
Oct 09	United Malt Holdings ¹⁰²	GrainCorp	US\$665	6.7	6.7	7.5	7.5
Nov 02	Joe White Malting	AusBulk	A\$144	7.9	na	10.3	na
Oilseed and Vegetable Oil Processing							
Dec 12	Tradewinds Malaysia ¹⁰³	Consortium	MYR2,758	8.4	na	12.0	na
Dec 12	Westway	EQT Partners	US\$421	10.5	na	22.8	na
Aug 12	Gardner Smith Group	GrainCorp	A\$302	9.2	na	17.4	na
Aug 12	Integro Foods	GrainCorp	A\$170	5.5	na	6.4	na
Aug 11	Elstar Oils	ADM	PLN313	15.6	na	29.5	na
Dec 06	PPB Oil ¹⁰⁴	Wilmar	MYR4,029	17.1	10.3	20.6	11.9
Jun 05	Aarhus United	BNS	DKK2,000	7.5	na	11.8	na
Jul 02	Cereol	Bunge	€822	5.5	5.2	8.3	8.0
Other Agribusiness (Australia)							
Jul 10	Sucrogen	Wilmar	A\$1,750	8.9	na	12.9	11.9
Mar 07	Queensland Cotton	Olam	A\$167	13.0	na	23.9	na

Source: Grant Samuel analysis (see Appendix 3)

Further details on these transactions are set out in Appendix 3.

The following factors are relevant to consideration of the transaction evidence:

- the Australian grain handling and marketing industry changed fundamentally following deregulation of wheat exports in July 2008. The abolition of the “single desk” enabled other parties to provide services along the grain supply chain resulting in a more competitive market. Accordingly, Australian grain handling and marketing transactions prior to 2008 are not considered meaningful valuation evidence;
- outside Australia, grain companies have long operated along the supply chain (although the Canadian grain industry was only fully deregulated in July 2012) and therefore international grain handling transactions which reflect the benefits of supply

⁹⁸ Implied equity value if 100% of the company or business had been acquired.

⁹⁹ Represents gross consideration divided by EBITDA.

¹⁰⁰ Represents gross consideration divided by EBIT.

¹⁰¹ Based on five year average EBITDA.

¹⁰² Based on United States dollar denominated acquisition price and EBITDA. This is higher than announced (5.7 times) which was based on an Australian dollar price converted at US\$:A\$0.865 and Australian dollar EBITDA based on US\$:A\$0.7472.

¹⁰³ Historical multiples for Tradewinds Malaysia are based on actual results for the 12 months to 31 December 2012.

¹⁰⁴ Historical multiples for PPB Oil are based on actual results for the 12 months to 31 December 2006.

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chain integration have been considered. However, evidence from international transactions needs to be treated with caution as differences between Australian and international growth and inflationary expectations, industry and market conditions (including crop cycles) and differing tax regimes impact on valuations and implied multiples. Nevertheless, international transactions provide some valuation guidance; and

- most grains industry transactions involve businesses with a range of activities beyond the grain supply chain such as rural services or agri-products. Consequently, the valuation parameters implied by many of the transactions reflect the blend of activities and provide limited guidance in relation to the individual business units of GrainCorp.

6.6 Valuation of Business Units

6.6.1 Storage & Logistics

Grant Samuel has attributed a value of \$1,600-1,700 million to Storage & Logistics. This value range represents the following multiples:

Storage & Logistics – Implied Multiples			
	Variable (\$ million)	Value Range	
		Low	High
Value Range (\$ million)		1,600	1,700
<u>Multiple of EBITDA (times)</u>			
Normalised EBITDA (Section 6.4)	168.0	9.5	10.1
FY12 (adjusted) (Section 5.2)	249.7	6.4	6.8
Average for four years ended FY12	167.7	9.5	10.1
FY13 (broker consensus)	192.5	8.3	8.8
FY14 (broker consensus)	155.6	10.3	10.9
FY15 (broker consensus)	160.2	10.0	10.6
<u>Multiple of EBIT (times)</u>			
Normalised EBIT (Section 6.4)	113.0	14.2	15.0
FY12 (adjusted) (Section 5.2)	196.4	8.1	8.7
Average for four years ended FY12	122.7	13.0	13.9
FY13 (broker consensus)	144.1	11.1	11.8
FY14 (broker consensus)	99.4	16.1	17.1
FY15 (broker consensus)	115.1	13.9	14.8

The implied multiples, in particular the multiple of 9.5 to 10.1 times normalised EBITDA, are considered reasonable relative to the market evidence set out in Section 6.5.2. The following factors were taken into account in forming Grant Samuel's view:

- Storage & Logistics is essentially an infrastructure business encompassing storage facilities, rail operations and port facilities. This element of the grains business warrants a higher multiple than the multiple appropriate for a blended business that also incorporates other activities such as marketing and processing;
- the GrainCorp asset base provides total coverage of eastern Australian grain production and it operates seven of the eight major grain port terminals in the region. The business currently receives approximately 60% of the eastern Australian crop through its country receival network and another 10-14% delivered direct to its port facilities.

There are very substantial barriers to entry to this business, even for major international grain companies. It would be virtually impossible for anyone to replicate the network. There are no competing operations that are in any way comparable.

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GrainCorp represents the last opportunity for international grain companies to acquire a significant foothold in the Australian grains industry (never mind the eastern Australian grains industry) particularly following the acquisitions of AWB and ABB by two of the largest international market participants (assuming CBH wishes to remain a grower owned co-operative).

Further, GrainCorp provides the only opportunity to acquire a position of market leadership. In an industry that has been rationalising and consolidating for over a decade (largely as a result of deregulation) and has now reached a situation close to the end game, GrainCorp's Storage & Logistics assets have a genuine scarcity value;

- there are some new entrants in certain segments of the bulk grain handling industry in Australia. In particular, there is a proposed port development in Newcastle targeted at handling grain and there are possibilities of others. However, these are not seen as substantial competitive threats and, in general terms, the competitive landscape is relatively stable. There are no significant trends (e.g. containerisation, road transport direct to domestic customers) that are likely to have any material adverse impact on Storage & Logistics' operations over the medium term;
- while GrainCorp's various business units are being valued separately it needs to be recognised that they are part of a broader integrated business that strengthens each business unit's individual competitive position. A purely standalone Storage & Logistics would be a passive infrastructure provider whereas when combined with GrainCorp Marketing (and its 35% market share) there is a capacity to create "pull through" across the network providing greater control over receivals and transport management and opportunities to gain efficiencies;
- value is a function of both growth and risk. Relative to Viterro's core operations in Western Canada, Storage & Logistics suffers from greater volatility in volumes (i.e. crop harvest levels) and earnings. Eastern Australia appears to be more prone to extremes of weather. Other things being equal, this would suggest a lower multiple. On the other hand, eastern Australia has demonstrated materially stronger underlying growth in production than Western Canada over the long term (i.e. the past 10-20 years). That higher rate of growth is expected to continue into the medium term, albeit at lower rates as continued acreage expansion becomes more difficult (and in more marginal areas);
- while a higher EBITDA multiple could be justified by comparison to the market evidence, value is constrained by the relative capital intensity of Storage & Logistics (i.e. the level of capital expenditure relative to EBITDA). This is evident in the normalised EBIT multiples which, at 14.2-15.0, are relatively high particularly compared to the multiples implied by the reference transactions. On the other hand, it should be recognised that "stay in business" capital expenditure requirements for this business are well below the level of depreciation (\$53.5 million in FY12);
- Grant Samuel has included a separate value for a number of specific projects and future business developments that form part of GrainCorp's portfolio of business initiatives announced with the release of the FY12 results. This includes the impact of the proposed changes to the regulation of port access due to start in 2014 (see Section 6.7).

However, no specific incremental value was included for a number of other initiatives being pursued by Storage & Logistics (referred to as "gamechangers" and "asset optimisation"). These "gamechanger" initiatives have not been separately included in the valuation largely because these kinds of continuous business improvements are present in every business and it is not possible to determine to what extent similar kinds of improvements were inherent in the target companies involved in the comparable transactions and are therefore reflected in the purchase price and multiples. A number of these initiatives are at relatively advanced stages of planning and have been reviewed in detail by external consultants. The earnings benefits from

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some of the gamechangers are effectively included in the “normalised” earnings but the full benefit of all the initiatives are not included and will not be realised until FY16; and

- the reduced number of brokers following the stock and publishing research subsequent to the announcement of the agreed offer has meant that forecast of divisional earnings are more susceptible to distortion from outliers.

6.6.2 GrainCorp Marketing

Grant Samuel has attributed a value of \$250-275 million to GrainCorp Marketing. This value is net of any related Marketing inventory funding. The value for GrainCorp Marketing represents the following multiples:

GrainCorp Marketing – Implied Multiples			
	Variable (\$ million)	Value Range	
		Low	High
Value Range (\$ million)		250	275
<u>Multiple of EBITDA/PBTDA (times)</u>			
Normalised PBTDA (Section 6.4)	30.3	8.3	9.1
FY12 PBTDA (adjusted) (Section 5.3)	41.2	6.1	6.7
Average PBTDA for four years ended FY12	32.9	7.6	8.4
FY13 EBITDA (broker consensus)	52.7 ¹⁰⁵	10.4 ¹⁰⁵	10.9 ¹⁰⁵
FY14 EBITDA (broker consensus)	57.3 ¹⁰⁵	9.6 ¹⁰⁵	10.0 ¹⁰⁵
FY15 EBITDA (broker consensus)	61.3 ¹⁰⁵	9.0 ¹⁰⁵	9.4 ¹⁰⁵
<u>Multiple of EBIT/PBT (times)</u>			
Normalised PBT	29.9	8.4	9.2
FY12 PBT (adjusted) (Section 5.3)	40.8	6.1	6.7
Average PBT for four years ended FY12	32.5	7.7	8.5
FY13 EBIT (broker consensus)	45.1	12.2 ¹⁰⁵	12.7 ¹⁰⁵
FY14 EBIT (broker consensus)	43.4	12.7 ¹⁰⁵	13.2 ¹⁰⁵
FY15 EBIT (broker consensus)	43.4	12.7 ¹⁰⁵	13.2 ¹⁰⁵
<u>Multiple of NPAT (times)</u>			
Normalised NPAT (Section 6.4)	20.9¹⁰⁶	12.0	13.2
FY12 (adjusted)	28.6 ¹⁰⁶	8.8	9.6
Average for four years ended FY12	22.8 ¹⁰⁶	11.0	12.1

The implied multiples, in particular the multiple of 8.3-9.1 times normalised PBTDA, are considered reasonable relative to the market evidence. The following factors were taken into account in forming Grant Samuel’s view:

- the grain marketing segment exhibits greater levels of competition and significantly lower barriers to entry compared to grain handling as well as a higher level of uncertainty about trading profits and their sustainability. Accordingly, multiples for GrainCorp Marketing should be lower than for Storage & Logistics.

In this context, GrainCorp Marketing has minimal capital expenditure while Storage & Logistics has a significant level of capital expenditure (and depreciation). EBIT multiples are therefore often a better reflection of the effective multiple of free cash flows (assuming depreciation is a reasonable proxy for long run capital expenditure). The implied multiples of normalised PBT (i.e. EBIT – interest) for GrainCorp

¹⁰⁵ Brokers do not separately forecast interest expense relating to commodity interest funding. To calculate the multiples implied by broker consensus forecasts for GrainCorp Marketing, Grant Samuel has added assumed average GrainCorp Marketing inventory related debt of \$300 million to the enterprise value of \$250-275 million.

¹⁰⁶ Calculated as PBT less corporate tax at a rate of 30%.

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Marketing of approximately 8-9 times are materially below the 13.9-15.2 times EBIT for Storage & Logistics. This differential adequately compensates for any differences in business risk;

- the historical earnings of GrainCorp Marketing include significant levels of arbitrage and other trading profits. The sustainability of such profits is always open to question on an ex ante basis but:
 - these types of profits have been consistently generated over several years; and
 - the assumed normalised PBTDA margin of \$5.00-5.50 per tonne is well below the peak of \$8.27 per tonne in FY11 which did include some significant gains that are not assumed to be repeatable;
- pure “trading” businesses (i.e. those focussed on trading open principal positions) are generally valued at:
 - low multiples; and
 - close to the net assets/capital employed with minimal levels of goodwill.

The value attributed to GrainCorp Marketing represents a substantial premium over the capital employed in the business (approximately \$130 million at 30 September 2012) but, on average, less over the course of the year.

However, GrainCorp Marketing is essentially a marketing business rather than a trading business picking up margin between well established customers on the buy and sell side. It has direct relationships with a range of grain users, both domestically and internationally, and seeks to acquire grain to match these requirements rather than speculate. GrainCorp Marketing trading is largely concentrated on basis risk and it takes very limited flat price risk on its trading opportunities.

Moreover, the common ownership with Storage & Logistics (all operating under the GrainCorp umbrella) gives the GrainCorp Marketing some important competitive advantages (e.g. greater confidence in delivery reliability) that help sustain its ability to generate volumes and margins;

- normalised PBTDA reflects the current earnings capacity of the business. The “gamechanger” initiatives for GrainCorp Marketing are targeted to add EBITDA of \$12 million per annum by FY16 (with a capital cost of \$15 million). These have not been separately included in the valuation.

The major contribution is the development of the international business building on the recently opened offices in Hamburg (opened 2011) and Calgary (opened 2012). GrainCorp Marketing is incurring the cost base (e.g. FY12 and FY13) ahead of the volume that is expected to build over the next couple of years. Initial performance is encouraging, albeit that it is early days. Other initiatives involve expansion into marketing South Australian and Western Australian grains and supply chain cost reductions (e.g. demurrage).

While there are always risks about delivery of such earnings gains (particularly for strategies targeted at higher market share), the quantum does indicate the potential for a step change in the earnings capacity of GrainCorp Marketing and this helps underpin the implied multiples; and

- the multiples based on median broker consensus earnings forecasts for GrainCorp Marketing need to be treated with considerable caution. Some analysts forecast EBIT and some forecast EBITDA. This can lead to some inconsistency between EBIT and EBITDA consensus forecasts (i.e. the difference is not consistent with actual depreciation (\$0.4 million in FY12)). Additionally, the very limited number of brokers forecasting EBITDA (two) means the median is distorted by an outlier. Finally, some analysts factor in the earning improvements from GrainCorp’s various initiatives while others do not.



6.6.3 GrainCorp Malt

Grant Samuel has attributed a value of \$850-900 million to GrainCorp Malt. This value represents the following multiples:

GrainCorp Malt – Implied Multiples			
	Variable (\$ million)	Value Range	
		Low	High
Value Range (\$ million)		850	900
<u>Multiple of EBITDA (times)</u>			
Normalised EBITDA¹⁰⁷	100.8	8.4	8.9
FY12 (adjusted) (Section 5.4)	112.3	7.6	8.0
Average for four years ended FY12	115.6	7.4	7.8
FY13 (broker consensus)	110.4	7.7	8.2
FY14 (broker consensus)	117.4	7.2	7.7
FY15 (broker consensus)	118.4	7.2	7.6
<u>Multiple of EBIT (times)</u>			
Normalised EBIT¹⁰⁷	74.8	11.4	12.0
FY12 (adjusted) (Section 5.4)	88.4	9.6	10.2
Average for four years ended FY12	96.9	8.8	9.3
FY13 (adjusted) (broker consensus)	83.3 ¹⁰⁸	10.2	10.8
FY14 (adjusted) (broker consensus)	93.5 ¹⁰⁸	9.1	9.6
FY15 (adjusted) (broker consensus)	94.6 ¹⁰⁸	9.0	9.5

The implied multiples, in particular the multiples of 8.4-8.9 times normalised FY13 EBITDA and 11.4-12.0 times EBIT, are considered reasonable relative to the market evidence. The following factors were taken into account in forming Grant Samuel's view:

- the aggregate demand for malt is expected to continue to grow, albeit at a relatively moderate rate. Reasonably strong growth in the demand for malt for whisky production, for beer in developing markets and in the craft beer segment globally will be offset by continued declines in mainstream beer production in developed economies. Within this environment, GrainCorp Malt is well placed:
 - it has a very strong market position in the craft beer market in North America (by far the largest part of the craft beer market);
 - it is the leading supplier of malt to the Scotch whisky industry and it has a higher relative exposure to this sector than any other major maltster; and
 - the Australian business is well located to serve the growing Asian beer market;
- GrainCorp Malt is a well spread business geographically and has broad exposure across North America, Europe (including the United Kingdom) and Australia. This reduces the risk of the business by diversifying exposure to issues impacting individual geographies (crop failures, competition, capacity changes);
- apart from volume growth, the key issues for the industry are capacity utilisation and the impact on conversion margins (and EBITDA margins). Excess capacity has adversely impacted margins in the last couple of years particularly in Europe where it is compounded by falling beer consumption. However, capacity rationalisation is occurring and utilisation is improving (now above 90% globally). Accordingly, there

¹⁰⁷ Based on the midpoint of management guidance for FY13 released with the half year results to 31 March 2013 (volume 1.3 mtpa, EBITDA of \$75-80 per tonne). Excludes one off payments from Port of Vancouver. EBIT assumes depreciation of \$26 million (excluding amortisation of acquired intangible assets).

¹⁰⁸ Broker consensus EBIT forecasts of GrainCorp Malt are after amortisation of acquired intangibles. EBIT has been adjusted to add back approximately \$12 million per annum for amortisation of acquired intangible assets. Excluding this item would reduce the implied EBIT multiples by over 10%.

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is an expectation that the decline in margins from the late 2000s has plateaued and that there is a reasonable prospect of increases from current levels, although not back to previous peaks;

- improved margins are expected from FY14 as a result of:
 - efficiencies from the new malt house in Vancouver, Washington (United States) which has been funded by the Port of Vancouver;
 - cost savings from a co-located power station in Calgary; and
 - the turnaround in Schill Malz over the next 2-3 years. A loss was incurred in FY12 and a small profit is anticipated in FY13. This turnaround should provide a meaningful boost to overall earnings;
- GrainCorp Malt is pursuing a number of business development initiatives to improve EBITDA margins including:
 - cost reductions through 60 individual projects (with capital expenditure of approximately \$24 million);
 - consolidating support functions globally;
 - creating a globally integrated sales and marketing function to serve major customers; and
 - targeting the craft beer market by replicating the successful United States business model in its other operations (e.g. United Kingdom).

In total, these initiatives are expected to contribute \$14 million in incremental EBITDA by FY16, although a portion of the cost savings have already been achieved during FY12 (a contributor to the 10% uplift in EBITDA per tonne, excluding the Schill Malz acquisition);

- GrainCorp Malt has invested heavily in plant upgrades and expansions in recent years (e.g. Pinkenba in Queensland and Arbroath in the United Kingdom). Future stay-in-business capital expenditure requirements are relatively low compared to EBITDA (less than 15%);
- the performance of the Australian and Canadian businesses (both of which export substantial volumes) have been adversely affected by their respective strong currencies. Recent weakness in these currencies and the potential recovery of the US\$ should competitiveness and/or assist margin levels achievable in these two units;
- GrainCorp acquired United Malt Holdings (the basis of GrainCorp Malt except for the smaller acquisition of Schill Malz, Kirin Australia Malt House and Brewcraft) for \$757 million (US\$655) in October 2009. The price represented multiples of 6.7 times adjusted EBITDA for the 12 months ended 30 June 2009¹⁰⁹. While this is well below the 8.4-8.9 times EBITDA implied by Grant Samuel's valuation, it needs to be recognised that margins and earnings at the time of acquisition were at cyclical peaks and were expected to decline. The acquisition multiples based on normalised earnings assuming long run conversion margins would have been materially higher;

Similarly, the multiples implied by Boortmalt's February 2010 acquisition of Greencore Group plc's malting business are also low reflecting the historically high earnings in 2009 relative to prior years;

- although the acquisition of Schill Malz for €40 million in July 2011 was relatively small, it was strategic in increasing GrainCorp Malt's presence in the European barley and malt market and created supply chain advantages. The price represents a multiple

¹⁰⁹ Based on United States dollar denominated acquisition price and earnings. These multiples are higher than those announced which were based on an Australian dollar acquisition price (converted at US\$:A\$0.865) and Australian dollar earnings based on US\$:A\$0.7472.

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of 7.3 times of five year average EBITDA and earnings for FY2012 and FY2013 were expected to be lower as a result of weak industry conditions;

- the value range of \$850-900 million is less than the aggregate of:
 - the acquisition cost of United Malt Holdings (\$757 million);
 - the acquisition cost of Schill Malz, Kirin Australia Malt House and Brewcraft (\$92 million);
 - “growth” capital expenditure that has been incurred by GrainCorp subsequent to acquisition (as opposed to “stay in business” capital expenditure) of approximately \$100 million; and
 - median broker forecasts of EBITDA are impacted by one outlier because of the small pool. In relation to FY13, the median is approximately 10% above management guidance.

DCF Analysis

No detailed projections are available for GrainCorp Malt. Nevertheless, Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuation. In order to do so, Grant Samuel has developed a high level DCF model which allows the key drivers of earnings and capital expenditure to be modelled. The DCF model is based on a number of assumptions that Grant Samuel considers reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance for GrainCorp Malt and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model.

The DCF model forecasts nominal after tax cash flows for 9.5 years from 1 April 2013 with a terminal value calculated by capitalising net after tax cash flows using the perpetuity method assuming a long term growth rate of 1.5%. The main operational assumptions are:

- total tonnes of malt produced increase by 1% per annum at Schill Malz (as export capability develops) and by 0.5% per annum in all other locations;
- EBITDA margins (per tonne) are determined for each of the five operations. Margins are assumed to strengthen in most markets in FY14 but by varying amounts with the overall increase being approximately \$10 per tonne. Over the longer term, margins are assumed to grow by 50% of the rate of inflation;
- stay-in-business capital expenditure is forecast for each region. In aggregate it is assumed to be in the range \$15-20 million;
- depreciation is based on forecast FY13 levels;
- inflation of 1.7-2.6% based on Bloomberg consensus forecasts for each region;
- corporate tax based on statutory rates in each region (Australia – 30%, United Kingdom – staged reduction to 21%, Canada – 26.5%, United States – 40% (effective), Germany – 29.55%). The effective average rate is slightly above 30%;
- foreign currency cash flows are converted to A\$ at the relevant forward rate. The A\$ declines against each of the other currencies over the explicit forecast period; and
- a weighted average cost of capital of 10%.

The above assumptions result in a NPV of \$881 million with the terminal value representing around 50% of the NPV. However, forecasts of operational assumptions are uncertain and there is significant scope for differences in opinion on key assumptions. In addition, NPV outcomes can be highly sensitive too relatively small changes in assumptions. For example, the value declines to \$818 million if flat exchange rates (rather than forward rates) are assumed. Nevertheless, in Grant Samuel’s opinion, the DCF

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analysis undertaken supports a value of \$850-900 million for the business operations of GrainCorp Malt.

6.6.4 GrainCorp Oils

Grant Samuel has attributed a value of \$472 million to GrainCorp Oils. This value is equal to the recent acquisition cost of the businesses (October 2012).

A separate value has been attributed to the value of integration synergies identified by GrainCorp during and post acquisition (estimated at \$7 million per annum) as well as the value of other initiatives related to GrainCorp Oils (in particular capacity expansion). These values have been included in the assessed value of the portfolio of initiatives announced by GrainCorp at the time of release of its annual results (November 2012) (see Section 6.7).

Grant Samuel believes that cost is a reasonable starting point for value. The businesses that comprise GrainCorp Oils were acquired in two (separate) arm's length transactions that were only completed in October 2012.

The only issue is whether GrainCorp overpaid for the businesses. Grant Samuel does not believe that to be the case. In forming this view, the following factors were considered:

- discussions with GrainCorp management. Management has advised that in formulating its offer prices for the businesses potential synergies (by integrating the two businesses or with other parts of GrainCorp's businesses) were not explicitly factored into the valuation analysis;
- analyst commentary and analysis following the announcement of the transactions. While some analysts appeared to feel the price was "full", most believed there was reasonable value (certainly if the \$4 million of announced synergies was included) and that the businesses were a strong strategic fit with GrainCorp's existing businesses;
- the implied multiples paid by GrainCorp:

GrainCorp Oils – Acquisition Multiples			
Business	Purchase Price (\$ million)	Pro Forma 2012 EBITDA ¹¹⁰ (\$ million)	EBITDA Multiple (times)
Gardner Smith Group	302	32.9	9.2
Integro Foods	170	30.7	5.5
Overall	472	63.6	7.4

These multiples are reasonable. While the Gardner Smith Group multiple appears high it needs to be recognised that it is a blended multiple as approximately 50% of this business' earnings are generated by its bulk liquid port terminals business. Precedent transactions for these types of assets, which are essentially infrastructure, are generally higher at around 10 times EBITDA. This implies that the effective multiple for the processing business is more in the order of 8 times trailing (i.e. historical) EBITDA (which excludes trading income and some recent acquisitions); and

- there are few meaningful acquisitions of oil processing businesses in recent years (see Section 6.5.3):
 - Tradewinds Malaysia operates palm and rubber plantations, process and markets palm oil, procures, processes and markets rice and refines and markets sugar.

¹¹⁰ See Section 5.5. Pro forma 2012 EBITDA excludes any contribution from edible oil and grain trading activities and earnings from recent acquisitions (\$2 million).

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The multiples implied by the transaction therefore reflect a blend of these businesses but provide some value guidance for agricultural processing businesses;

- the multiples for the acquisition of Westway are similar to those paid by GrainCorp for the Gardner Smith Group reflecting the blend of bulk liquid storage and liquid fee supplements businesses;
 - ADM's acquisition of Elstar Oils represents high multiples of earnings reflecting both weak industry conditions (at the time) and a competitive bidding process;
 - the multiples implied by the acquisition of PPB Oil are high reflecting the strategic advantage to Wilmar of moving upstream into palm plantations and an expectation of strong earnings growth as a greater share of palms reach maturity;
 - Aarhus United operated in five segments (including speciality fats and bulk oils) but around 30% of profits were derived from non-oil related activities; and
 - Bunge's 2002 acquisition of Cereol S.A. (a processor of oilseeds) is the most comparable transaction for GrainCorp Oils and represented multiples of 5.5 times and 8.3 times historical EBITDA and EBIT respectively; and
- the implied multiples paid by GrainCorp are based on earnings which exclude any contributions from edible oil and grain trading activities by GrainCorp Oils (which are to continue) and from the acquisition of Fry Fresh/Fataway and BLM Feeds (\$2 million EBITDA).

GrainCorp management has advised that the current earnings of the business (including the half year to 31 March 2013) are on track to meet expectations at the time of acquisition and that during the eight months since there have been no material adverse surprises.

Grant Samuel does not believe it is appropriate to adjust the value for the approximately 13% rise in the Australian stockmarket since October 2012.

6.7 Business Development Initiatives

As the full extent of the business model has developed over the last five years, GrainCorp has begun to implement a program of business and performance improvement initiatives. In total, the portfolio of initiatives is targeting incremental EBITDA of approximately \$110 million by the end of FY16 with associated capital costs of approximately \$270 million (of which \$20 million was spent in FY12).

In general, they have not been specifically included in the valuation of the individual business units¹¹¹, largely because these kinds of continuous business improvements are present in every business and it is not possible to determine to what extent similar kinds of improvements were inherent in the target companies involved in the comparable transactions and therefore reflected in the purchase prices and multiples.

However, Grant Samuel has attributed a separate value where these projects or changes represent step changes in the business outside the ordinary course. Specifically, Grant Samuel has attributed value to:

- the regulatory changes to port access for Storage & Logistics which will enable it to contract with larger grain marketers for committed port capacity for periods of up to three years (estimated EBITDA impact of \$20 million per annum by FY16);
- synergies from the acquisition and integration of Gardner Smith Group and Integro Foods (estimated by GrainCorp to be \$7 million per annum). These businesses have been separately valued at acquisition cost; and

¹¹¹ Except to some extent in the estimate of normalised earnings for Storage & Logistics.

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- the expansion of oil crushing capacity and the development of refining capability at Numurkah, with targeted EBITDA benefits of \$18 million and capital expenditure of \$90-100 million.

Assessing the current value of these kinds of initiatives is difficult:

- there is inevitably considerable execution risk and it is appropriate to materially discount the potential benefits to reflect that risk; and
- given the uncertainties it is not practical to undertake detailed analysis (e.g. DCF analysis). Such analysis would give a misleading impression of precision. It is necessarily a high level judgement.

In simple terms, the theoretical value of these initiatives is the notional capital value (say, incremental EBITDA capitalised at an appropriate multiple) less the one off costs to implement the project.

The degree of risking is always open to debate. At the low end of the value range, Grant Samuel believes applying a risk factor of 50% to the expected net benefits is appropriate. At the top end something closer to 70-75% may be more appropriate. In both cases, these judgements reflect the considerable level of analytical and planning work that has gone into the entire program.

Based on this approach Grant Samuel has attributed a value range of \$150-200 million to these initiatives.

6.8 Corporate Overheads

GrainCorp incurs corporate overheads (not allocated to business units and excluding one off costs) of approximately \$25 million per annum. These costs represent costs associated with running GrainCorp's head office and include:

- executive office and board of directors;
- group finance, accounting, tax, treasury, assurance, risk management and information technology;
- business development and corporate offices;
- legal, compliance, human resources and company secretarial services; and
- costs of being a listed company (annual reports and shareholder communications, share registry and listing fees).

Any acquirer of 100% of GrainCorp would be able to save the costs associated with being a listed company (including the board of directors). Furthermore, any acquirer of GrainCorp that has an existing presence in Australian agribusiness would be able to eliminate some of the costs associated with the GrainCorp executive office as well as savings across other categories including financial accounting, audit, company secretarial, business development, corporate affairs and external legal costs.

In some circumstances it would be appropriate to reduce the corporate overheads to reflect the potential savings to acquirers (at least in respect of savings that are not unique to only one acquirer). However, in the case of GrainCorp the key valuation parameters (multiples to EBITDA) are derived from other acquisitions of public listed companies (in particular ABB and Viterro). In each case, the acquirer would have expected to achieve significant head office cost savings and this would be reflected in the purchase price and the multiple (i.e. multiples net of synergy benefits would be lower). Accordingly, in order to ensure there is no double counting of these cost savings benefits no adjustment has been made. Grant Samuel has attributed a negative value of \$200-225 million to corporate overheads implying a multiple of 8.0-9.0 times the annual cost of \$25 million. This multiple represents average multiples across GrainCorp's four businesses.

6.9 Overall Valuation Multiples

While a sum of the parts valuation, the resultant value can also be analysed on an overall basis for GrainCorp as a whole. Grant Samuel's view is that this value perspective is equally as important as the sum of the parts approach because:

- GrainCorp operates an integrated "end to end" business within the grains industry. The business units all interact with each other and GrainCorp's business largely involves three key grains (wheat, barley, canola); and
- the key reference transactions all involve businesses which had a mix of activities across the grain supply chain including grain handling, marketing and processing. There are very few, if any, comparable transactions for individual elements that provide meaningful valuation insight.

The analysis of overall implied multiples is set out in the table below. In considering those multiples it should be noted that:

- the analysis (at the EBITDA/EBIT level) is based on the estimated enterprise value of \$3,097-3,347 billion (see Section 6.1). This value:
 - includes the value attributed to GrainCorp's portfolio of initiatives;
 - excludes GrainCorp's 60% interest in Allied Mills (which is equity accounted); and
 - excludes other assets and liabilities;
- normalised earnings are based on the Grant Samuel estimate for Storage & Logistics and GrainCorp Marketing (see Section 6.4), the midpoint of management guidance for FY13 for GrainCorp Malt (see Section 5.4) and double the result to 31 March 2013 for GrainCorp Oils. Corporate overheads are assumed to be \$25 million and have not been reduced to reflect the savings an acquirer should be able to achieve (see Section 6.8);
- all EBIT forecasts including broker consensus forecasts have been adjusted to exclude amortisation of acquired intangible assets; and
- as analysts use EBITDA and EBIT before marketing interest the implied multiples are adjusted to reflect GrainCorp's total debt (i.e. not just core debt).

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GrainCorp – Overall Implied Multiples			
	Variable (\$ million / \$)	Value Range	
		Low	High
Value Range (\$ million)		3,097	3,347
<u>Multiple of EBITDA (times)</u>			
Normalised	340.2¹¹²	9.1	9.8
FY12 (adjusted pro forma)	440.6 ¹¹³	7.0	7.6
Average for four years ended FY12	360.7 ¹¹⁴	8.6	9.3
FY13 (broker consensus)	392.2 ¹¹⁵	8.9 ¹¹⁶	9.5 ¹¹⁶
FY14 (broker consensus)	374.0 ¹¹⁵	9.3 ¹¹⁶	10.0 ¹¹⁶
FY15 (broker consensus)	383.7 ¹¹⁵	9.1 ¹¹⁶	9.7 ¹¹⁶
<u>Multiple of EBIT (times)</u>			
Normalised	239.2¹¹⁷	12.9	14.0
FY12 (adjusted pro forma)	342.0 ¹¹⁸	9.1	9.8
Average for four years ended FY12	276.4 ¹¹⁹	11.2	12.1
FY13 (broker consensus)	292.6 ¹²⁰	11.9 ¹¹⁶	12.7 ¹¹⁶
FY14 (broker consensus)	273.4 ¹²⁰	12.7 ¹¹⁶	13.6 ¹¹⁶
FY15 (broker consensus)	276.0 ¹²⁰	12.6 ¹¹⁶	13.5 ¹¹⁶
<u>Price earnings multiple¹²¹ (times)</u>			
FY12 (as reported)	\$1.03	12.4	13.6
FY13 (broker consensus)	\$0.77	16.6	18.1
FY14 (broker consensus)	\$0.69	18.5	20.3
FY15 (broker consensus)	\$0.72	17.8	19.5

¹¹² Normalised earnings based on Grant Samuel EBITDA estimate for Storage & Logistics (\$168 million) and PBTDA estimate for GrainCorp Marketing (\$30.3 million), midpoint management guidance for FY13 for GrainCorp Malt (\$100.8 million) and double half year results for GrainCorp Oils (\$66 million). Corporate overheads are assumed to be \$25 million and have not been reduced to reflect the savings an acquirer should be able to achieve. Therefore, normalised EBITDA is after interest expense relating to commodity inventory funding.

¹¹³ Calculated as adjusted FY12 EBITDA for GrainCorp (\$398.9 million) less interest expense for commodity inventory funding for 2012 (\$21.9 million) plus pro forma FY12 EBITDA for GrainCorp Oils (\$63.6 million).

¹¹⁴ Aggregate of average adjusted/pro forma EBITDA (after interest expense for commodity inventory funding) for four years ended 30 September 2012 for each GrainCorp operating business unit and average of four years corporate overheads (EBITDA).

¹¹⁵ Broker consensus EBITDA forecasts for GrainCorp are before interest expense relating to commodity inventory funding (i.e. consistent with reported EBITDA).

¹¹⁶ As brokers do not forecast interest expense for commodity inventory funding, Grant Samuel has calculated the multiples implied by these forecasts by adding average funding for commodity inventories (GrainCorp Marketing and GrainCorp Oils) of \$380 million to the enterprise value of \$3,097-3,347 million.

¹¹⁷ Normalised earnings based on Grant Samuel EBIT estimate for Storage & Logistics (\$113 million) and PBT estimate for GrainCorp Marketing (\$29.9 million), midpoint management guidance for FY13 for GrainCorp Malt (\$100.8 million less assumed depreciation of \$26 million) and double the half year to 31 March 2013 for GrainCorp Oils (\$47.6 million). Corporate overheads are assumed to be \$26 million (including depreciation) and have not been reduced to reflect the savings an acquirer should be able to achieve. Therefore, normalised EBIT is after interest expense relating to commodity inventory funding but before amortisation of acquired intangibles.

¹¹⁸ Calculated as adjusted FY12 EBIT for GrainCorp (\$320.4 million) less interest expense for commodity inventory funding for 2012 (\$21.9 million) plus pro forma FY12 EBIT for GrainCorp Oils (\$43.5 million).

¹¹⁹ Aggregate of average adjusted/pro forma EBIT (i.e. after interest expense for commodity inventory funding) for four years ended 30 September 2012 for each GrainCorp operating business unit and average of four years corporate overheads (EBIT).

¹²⁰ Broker consensus EBIT forecasts for GrainCorp are before interest expense relating to commodity inventory funding (i.e. consistent with reported EBIT) and after amortisation of acquired intangibles. For the purposes of the calculations in the table, consensus EBIT has been adjusted to add back \$12 million per annum of amortisation of acquired intangibles.

¹²¹ Calculated as Grant Samuel equity value per share divided by earnings per share (actual or broker consensus forecasts).

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In Grant Samuel's opinion, these multiples, in particular the multiple of 9.1-9.8 times pro forma normalised EBITDA, are reasonable relative to the market evidence. The following factors were taken into account in forming Grant Samuel's view on value:

- the overall EBITDA multiples for GrainCorp are entirely consistent with the four key reference transactions which clearly indicate a range of 9-10 times EBITDA as being the benchmark. While the whole of GrainCorp is a diversified business (encompassing grains, malting and oil processing) each of the comparables also had a diversified base of activities (although grain handling was the primary activity in all cases);
- the implied normalised EBITDA multiple increases to 9.8-10.5 times if EBITDA is calculated in the conventional manner before interest expense on commodity inventory funding (with a corresponding adjustment to net borrowings); and
- multiples at least in line with the comparable transaction are appropriate having regard to:
 - GrainCorp's strategic attractions, in particular its market position in East Coast Australian grain handling and its port and other infrastructure assets (see Section 6.6 for more details);
 - the scale of the upside potential from the portfolio of initiatives (including both the ones separately valued and those not). Expected incremental EBITDA of \$110 million is equivalent to more than 30% of GrainCorp's normalised EBITDA (albeit before costs); and
 - the integrated nature of the business that has emerged over the past three years.

6.10 Allied Mills (60% interest)

Summary

Grant Samuel has estimated the value of GrainCorp's 60% interest in Allied Mills to be in the range \$160-187 million. This represents the aggregate value of GrainCorp's interest in the Class A shares issued by Allied Mills and GrainCorp's shareholder loan to Allied Mills. The valuation is summarised as follows:

Allied Mills - Valuation Summary (\$ millions)		
	Value Range	
	Low	High
Value of business operations	380.0	420.0
Other assets and liabilities	18.1	23.1
Net external borrowings	(131.0)	(131.0)
Shareholder loan	(31.8)	(31.8)
Value of equity in Allied Mills	235.2	280.2
GrainCorp's equity interest in Allied Mills (60%)	141.1	168.1
GrainCorp's loan to Allied Mills	19.1	19.1
Value of GrainCorp's interest in Allied Mills	160.2	187.2

Grant Samuel's valuation of Allied Mills is based on publicly available information and limited discussions with senior management of GrainCorp subject to the confidentiality arrangements under the shareholders' agreement. Grant Samuel has had no access to or discussions with senior management of Allied Mills or Cargill and has not had access to any forward looking information (e.g. current forecasts) for FY13 or beyond. However, a draft of Section 5.6 was provided to senior management of Allied Mills prior to finalisation of this report.

The value attributed to Allied Mills' business operations is an overall judgement having regard to earnings multiple analysis and, to a lesser extent, DCF analysis. The nature of Allied Mills' business means that earnings can fluctuate from year to year depending on the price of wheat (the major input cost) which is dependent on the Australian wheat crop.

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GrainCorp's loan to Allied Mills has been valued at carrying value at 31 March 2013 as it has been extended on market rates of interest.

The low end of the valuation approximates the NTA of Allied Mills at 31 March 2013 and GrainCorp's carrying value of its 60% interest at 31 March 2013.

Although GrainCorp has a 60% equity interest in Allied Mills, under the shareholders' agreement GrainCorp and Cargill have equal voting and management rights (i.e. GrainCorp does not control Allied Mills). Furthermore, pre-emptive rights exist, including on a change of control of either shareholder on the basis of fair value as determined by independent valuation (in the absence of agreement on price between shareholders). Grant Samuel understands that the shareholders' agreement does not provide specific guidance as to the meaning of "fair value" in the context of a change of control. Consequently, an independent valuer may discount the full underlying value of GrainCorp's interest in Allied Mills to allow for the lack of control. In Grant Samuel's opinion, as neither shareholder controls Allied Mills, any such discount should be de minimus and would not materially impact the value of GrainCorp's interest in Allied Mills. Consequently, for the purposes of this report, Grant Samuel has not discounted the full underlying value of GrainCorp's interest in Allied Mills.

Earnings Multiple Analysis

The value for Allied Mills' business operations of \$380-420 million represents the following multiples of earnings:

Allied Mills – Implied Multiples			
	Variable (\$ million)	Value Range	
		Low	High
Value Range (\$ million)			
Enterprise value		380.0	420.0
Equity value		235.2	280.2
<u>Multiple of EBITDA (times)</u>			
FY12 (Section 5.6)	42.3	9.0	9.9
Average for four years ended FY12	43.7	8.7	9.6
<u>Multiple of EBIT (times)</u>			
FY12 (Section 5.6)	28.3	13.4	14.8
Average for four years ended FY12	30.4	12.5	13.8
<u>Multiple of NPAT (times)</u>			
FY12 (adjusted) ¹²²	12.5	18.8	22.4
Average for four years ended FY12 (adjusted) ¹²²	14.1	16.7	19.9
FY13 (broker consensus)	17.8 ¹²³	13.2	15.7
FY14 (broker consensus)	18.8 ¹²³	12.5	14.9
FY15 (broker consensus)	19.5 ¹²³	12.1	14.4

The earnings multiples implied by Grant Samuel's value appear high but are considered reasonable as:

- a significant uplift in earnings is expected in FY13 and FY14 from the acquisition of Potts Bakeries in October 2012 and the expansion of the Tennyson Mill which is to be commissioned in mid 2013. EBITDA in the six months to 31 March 2013 is 5% ahead of the previous corresponding period¹²⁴. The benefits of the Tennyson Mill will not come through until FY14. The full outstanding capital cost of the Tennyson Mill at 31 March 2013 is reflected in the net borrowings;

¹²² Excluding non-recurring income (net) on an after tax basis.

¹²³ Broker consensus forecasts for GrainCorp's 60% interest in NPAT of Allied Mills (see Appendix 1) grossed up to 100%.

¹²⁴ As reported in GrainCorp's presentation of results for the six months ended 31 March 2013.

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- Allied Mills is Australia's largest producer of flour for human consumption (45% market share) and one of Australia's largest manufacturers and distributors of bakery premixes and semi finished bakery products. It operates nationally, holding strong market positions in supplying flour to food manufacturers, bakers and in store bakeries (including an exclusive five year agreement to supply flour to Goodman Fielder). There are substantial barriers to entry to the flour milling in Australia and it would be difficult for anyone to replicate the Allied Mills' production network and market share. None of its competitors are directly comparable to Allied Mills (Weston Milling consumes most of the flour it produces to manufacture bread and bakery products while Manildra is focused on industrial flours and ethanol);
- although movements in the price of wheat will remain a business risk, in recent years Allied Mills' has been strengthening its core earnings by:
 - improving capacity utilisation and the productivity and efficiency of its production network. In particular, the combination of the commissioning of the "state of the art" Picton Mill (and associated closure of the Summer Hill and Albury mills) and the closure of the Toowoomba Mill has changed the cost structure of the business and increased operating efficiencies. These structural changes will be enhanced by the commissioning of the expansion at the Tennyson Mill in mid 2013 and a range of other business improvement initiatives currently being implemented; and
 - moving its product mix away from commodity flour towards higher margin value added products such as bakery premixes and semi finished bakery products. In particular, profit contribution from parbake products is expected to increase as market penetration increases over the next few years.

However, notwithstanding these improvements in the business:

- it remains essentially a producer of commodity food products with little brand power; and
- the outlook for volume growth in the Australian flour market is modest at best.
- market analysts do not focus on the Allied Mills business when reviewing GrainCorp's operating performance. The broker consensus forecasts of NPAT for Allied Mills effectively represent average NPAT (unadjusted for non-recurring items) for the four years ended 30 September 2012 and makes no allowance for the recent substantial investment in, and structural changes to, the business. Consequently, in Grant Samuel's opinion, the forecast multiples of NPAT are not a reliable indicator of future performance for Allied Mills; and
- there are few meaningful acquisitions of flour processing businesses in recent years (see Section 6.5.3):
 - with the exception of Champion Flour Milling, the transactions involve businesses with a range of activities beyond flour milling and associated bakery products and, consequently, the valuation parameters reflect the blend of activities and provide limited guidance for Allied Mills;
 - information concerning the acquisition of Champion Flour Milling in December 2012 is limited but it appears that Nisshin has acquired a relatively small flour miller with limited involvement with the manufacture and distribution of associated baking products (as reflected in the low EBIT multiple implied by the transaction); and
 - the multiples (of historical earnings) implied by Grant Samuel's value exceed those implied by the acquisition of the Allied Mills business from Goodman Fielder in 2002. This is appropriate as Allied Mills' earnings have been strengthened by significant restructuring and refocussing since acquisition (including increasing contribution from higher margin products) and the significant uplift in earnings expected in FY13 and FY14 from recent acquisitions and the expansion of the Tennyson Mill.

DCF Analysis

No detailed projections are available for Allied Mills. Nevertheless, Grant Samuel has used DCF analysis as a cross check of the capitalisation of earnings based valuation. In order to do so, Grant Samuel has developed a high level DCF model which allows the key drivers of earnings and capital expenditure to be modelled. The DCF model is based on a number of assumptions that Grant Samuel considers reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance for Allied Mills and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model.

The DCF model forecasts nominal ungeared after tax cash flows for 9.5 years from 1 April 2013 with a terminal value calculated by capitalising net after tax cash flows using the perpetuity method assuming a long term growth rate of 1.5%. The main operational assumptions are:

- total tonnes of flour produced increase by 0.5% per annum from FY14;
- EBITDA per tonne increases by approximately \$10 between FY12 and FY14 (reflecting Potts Bakeries acquisition and the benefits of the Tennyson expansion) and grows by half the rate of inflation thereafter;
- depreciation exceeds stay in business capital expenditure of approximately \$5 million per annum (which grows by inflation) as a result of the growth capital expenditure previously incurred in relation to commissioning the Picton Mill, the acquisition of Potts Bakeries and the expansion of Tennyson Mill. Depreciation increases in FY14 by approximately \$3 million per annum but after FY16, starts to taper down;
- inflation rate of 2.5%;
- corporate tax rate of 30% of EBIT; and
- a weighted average cost of capital of 10%.

The above assumptions result in an NPV of \$394 million with the terminal value representing around 50% of the NPV. However, forecasts of operational assumptions are uncertain and there is significant scope for differences in opinion on key assumptions. In addition, NPV outcomes can be highly sensitive too relatively small changes in assumptions. Nevertheless, in Grant Samuel's opinion, the DCF analysis undertaken supports a value of \$380-420 million for the business operations of Allied Mills.

Other Assets and Liabilities

Other assets and liabilities have been valued in the range \$18.1-23.1 million and include:

- surplus land at Picton, New South Wales; and
- assets held for resale and other minor items.

Net Borrowings

Allied Mills' net external borrowings for valuation purposes are assumed to be \$130 million. It is based on average net borrowings for the 12 months to 31 March 2012 and factors in the outstanding capital expenditure to complete the Tennyson Mill expansion. This allows for the seasonal impact of grain accumulation.

In addition, there are finance leases and a derivatives liability totalling \$1.0 million.



6.11 Other Assets and Liabilities

GrainCorp's other assets and liabilities have been valued in the range of \$(10.1)-(5.6) million and include:

- the defined benefit retirement plans deficit of \$33.7 million (\$23.6 million allowing for the tax shield);
- surplus land at Thornleigh which is being actively marketed for sale;
- investment in other equity accounted associates and other unlisted entities (\$6-10 million); and
- margin deposits receivable with MF Global Australia (\$2.5 million).

No deduction has been made for the interim dividend of 25 cents per share to be paid on 19 July 2013 as the valuation is effectively "cum dividend".

No value has been attributed to GrainCorp's carried forward income tax losses or accumulated franking credits (see Section 6.14).

6.12 Net Borrowings

The deduction for net borrowings is based only on "core" debt and excludes borrowings related to the funding of GrainCorp Marketing inventories (which are effectively deducted in valuing the GrainCorp Marketing business) and GrainCorp Oils commodity inventories. Core borrowings fluctuates substantially over the course of the year largely because of seasonal working capital movements (outside of GrainCorp Marketing and GrainCorp Oils inventories) and peak in the first few months of the calendar year. The movement between the peak and the low point exceeds \$150 million. The level of core borrowings used in the valuation of \$330 million therefore needs to represent an estimate of normalised core borrowings across the year. In making this assessment, Grant Samuel reviewed monthly net borrowings (actual and forecast) for the year to 30 September 2013 (assuming the interim dividend of 25 cents per share is not paid). Based on this review and after discussion with GrainCorp management, an average core borrowings level of \$330 million has been assumed. Grossing up interest expense (on core borrowings) for the year at average interest rates also gives a similar result. The amount of \$330 million exceeds GrainCorp's forecast core net borrowings at year end.

6.13 Synergies

The likely acquirers of GrainCorp are existing participants in the international grain industry. As such, it is reasonable to expect that they would be able to achieve substantial synergies by acquiring GrainCorp and integrating its operations with their own networks. Announcements in relation to the comparable acquisitions have indicated the existence of material synergy benefits in those situations.

It is not possible to estimate the extent of synergies as they depend on the individual circumstances of the acquirer and are likely to vary from acquirer to acquirer. However, it is likely that, at a minimum, they would include in addition to head office savings:

- cost savings from integrating GrainCorp's offshore marketing offices (London, Hamburg, Calgary) with existing networks; and
- revenue gains from combining marketing teams and networks (e.g. the acquirer's customer network providing greater pull through demand for GrainCorp's grain procurement and handling as well as providing cross selling opportunities).

The synergies are likely to be material and are not unique to any one buyer. Accordingly, in theory they could be incorporated into the valuation. However, no allowance for such synergies has been made in order to avoid double counting as the multiples from the reference transactions have been

calculated using pre synergy earnings (i.e. they would be lower if synergy benefits were factored in). Grant Samuel is not aware of any reason why the potential synergy benefits arising from the acquisition of GrainCorp would be materially less (in relative terms) than they were in the three key reference transactions.

6.14 Franking Credits

Under Australia's dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel's opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence used by Grant Samuel in valuing the GrainCorp business units will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. overseas shareholders) they will have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit to the shareholder.

Accordingly, while franking credits may have value to some shareholders they do not affect the underlying value of the company itself. No value has therefore been attributed to GrainCorp's accumulated franking credit position in the context of the value of GrainCorp as a whole.

7 Evaluation of the ADM Offer

7.1 Conclusion

In Grant Samuel's opinion, the ADM Offer is fair and reasonable, in the absence of a superior proposal.

The ADM Offer of \$13.20 cash per share is above the bottom end of Grant Samuel's value range of \$12.74-13.97 and is therefore "fair". As the ADM Offer is fair, it is also "reasonable". In any event, GrainCorp shareholders should take the following factors into account:

- the very substantial premium that the ADM Offer provides over the share price prevailing at the time of the initial proposal in October 2012 (circa 50%);
- in the absence of any takeover offer (or speculation), it is likely that GrainCorp shares would trade at levels well below \$13.20;
- while there is no impediment to a higher offer from an alternative acquirer, no such proposal has emerged in the eight months since ADM's first approach; and
- the franking credits attached to the \$1.00 dividend component of the ADM Offer may create additional value for some shareholders (relative to a capital gain).

7.2 Fairness

Grant Samuel has estimated the full underlying value of GrainCorp, including a premium for control, to be in the range \$2,917-3,199 million which corresponds to \$12.74-13.97 per share. The value is the aggregate of the estimated market value of GrainCorp's operating business units together with other assets less external borrowings and non-trading liabilities. The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect GrainCorp shares to trade on the ASX in the absence of a takeover offer. The valuation is set out in Section 6 of this report.

The ADM Offer of \$13.20 cash for each GrainCorp share falls within the value range of \$12.74-13.97. Accordingly, the ADM Offer is fair. The bottom of the valuation range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair.

The precise timing of the payment of the base consideration of \$13.20 is uncertain (except for the interim dividend of 25 cents per share payable in July 2013) and is subject to conditions including regulatory approvals (except to the extent these are waived). However, it should be recognised that:

- most takeovers involve at least three months from announcement until the consideration is paid;
- if payment is delayed beyond 30 September 2013, GrainCorp shareholders will receive an additional dividend equal to 3.5 cents for each full month that the regulatory conditions are not satisfied or waived. This compensation is equivalent to 42 cents per annum and represents:
 - an amount broadly in line with GrainCorp's base dividend (i.e. before special dividends) of 35 cents in FY12 and 20 cents for the first half of FY13; and
 - an effective interest rate of 3.2% (net) and 4.5% (grossed up for franking credits) on the \$13.20 consideration;
- the net borrowings figure used to determine the value range to some extent took account of GrainCorp's cash flow generation to 30 September 2013; and
- even if the value of the consideration was discounted for, say, two months at 10% per annum it still falls within Grant Samuel's value range.

7.3 Reasonableness

As the ADM Offer is fair, it is also reasonable. In any event, there are a number of other factors that support the reasonableness of the ADM Offer and which GrainCorp shareholders should consider in determining whether or not to accept the offer. These factors are set out in the following sections.

7.3.1 Premium for Control

The ADM Offer of \$13.20 represents a substantial premium over the GrainCorp share price prior to ADM's initial proposal:

Implied Premium over Pre Bid Share Price				
Date/Period	Adjusted Share Price ¹²⁵ (\$)	Implied Premium (%)	Unadjusted Share Price (\$)	Implied Premium (%)
18 October 2012 – Pre-announcement price	\$8.74	51.0%	\$8.85	49.2%
1 week prior to 18 October 2012 – VWAP	\$8.88	48.6%	\$8.99	46.8%
1 month prior to 18 October 2012 – VWAP	\$8.79	50.2%	\$8.90	48.3%
3 months prior to 18 October 2012 – VWAP	\$9.02	46.3%	\$9.16	44.1%

The implied premiums are well above the level usually associated with takeovers of 20-35% although, at the same time, it should be noted that:

- the implied premiums are arguably somewhat overstated because of the weakness in the GrainCorp share price following the share issues in August/September 2012 to fund the acquisition of Gardner Smith Group and Integro Foods. The share issues were priced at \$9.79 (to Gardner Smith shareholders), \$9.20 (institutional component of entitlement offer) and \$8.80 (retail component) and the theoretical ex rights price was \$9.79. However, the share price subsequently declined and shares traded in the range \$8.60-9.01 in the period following the issue and up until the first ADM proposal was announced;
- the reality is that observed takeover premiums fall in a very wide range depending on individual circumstances. In fact, most transactions fall outside the 20-35% range and a significant proportion show premiums exceeding 50%, so high premiums are not unusual; and
- the recent acquisitions of AWB, ABB and Viterra also involved premiums over pre bid prices in excess of approximately 50%:

Comparable Acquisition Premiums			
Date	Acquirer	Target	Premium over Pre Bid Price (1 month VWAP)
May 2009	Viterra	ABB	49%
August 2010	Agrium	AWB	55%
March 2012	Glencore	Viterra	56%

- there are reasons why shareholders could reasonably expect high premiums for a change of control transaction in the agricultural sector:
 - in the absence of a takeover, the share prices of companies in the grains industry tend to reflect short term trading performance (e.g. current harvest levels) and are adversely impacted by the perceived risks of the agriculture sector

¹²⁵ On an adjusted basis (i.e. reflecting rights issues, bonus issues and special dividends).

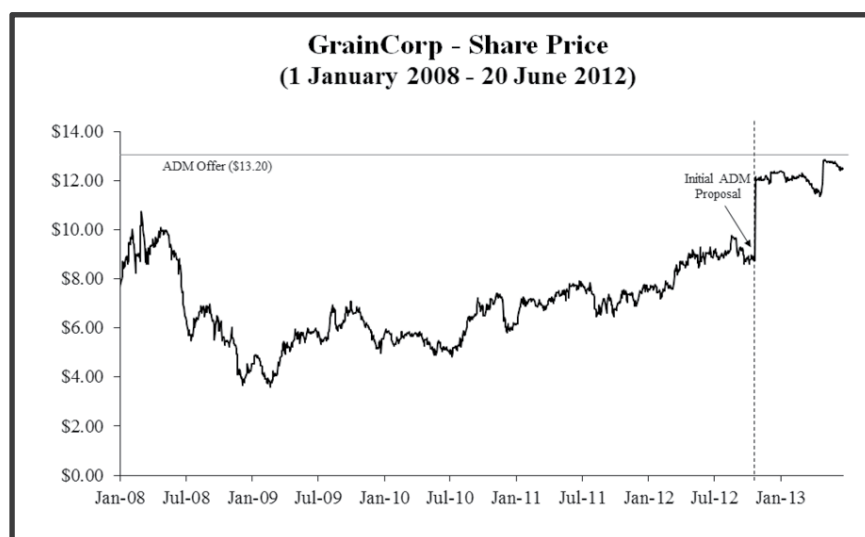


(unpredictable seasonal conditions and high variability in volumes and earnings), the low margins and the weak return on investment evident in the industry; but that

- in a change of control transaction, the relative scarcity of these types of assets, the market positions (market share), the benefits of consolidation (synergies and enhanced diversification), the barriers to entry (for the infrastructure elements of the business) and the perceived value of long term infrastructure type assets in a low interest environment all contribute to a significantly higher value proposition for acquirers.

7.3.2 Share Trading in the absence of any Takeover Offer

In the absence of the ADM Offer or a similar offer, shareholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage). In these circumstances (assuming no speculation as to an alternative or revised offer) and based on the trading in GrainCorp shares prior to the ADM approach, it is likely that, under current market conditions, GrainCorp shares would trade at prices well below \$13.20:



Source: IRESS

Notes: (1) Share prices on an adjusted basis reflecting rights issues, bonus issues and special dividends.

The price may not decline all the way to the levels prevailing prior to ADM's initial proposal (around \$9) but is likely to be well below \$13.20 and is unlikely to show material improvement in the short term until the benefits of the various initiatives flow through to profits.

7.3.3 Prospect of an Alternative Proposal

It is conceivable that a third party could make a higher offer for GrainCorp:

- GrainCorp has a number of important strategic attractions for international grain companies including its unreplicable asset base and ownership of seven out of the eight major grain export terminals in eastern Australia;
- there is no structural or absolute impediment to an alternative acquirer. While there is a "no-shop" agreement, GrainCorp can respond to unsolicited proposals from other parties. ADM Australia's existing 19.85% shareholding may be a deterrent to other bidders but it would not stop a determined bidder;



- prior to acting, potential bidders may have been waiting:
 - to see ADM Australia's full offer price; and/or
 - to see the baseline price at which GrainCorp Directors would recommend an offer; and
- there remains plenty of time for an alternative bidder to come forward.

On the other hand:

- ADM Australia's 19.85% stake would likely be seen as a material factor. Potential acquirers may also be conscious:
 - of the clear strategic rationale for ADM and the way in which GrainCorp fills a very obvious gap in ADM's geographic coverage; and
 - that ADM would be unlikely to be favourably disposed towards a global competitor acquiring control of GrainCorp; and
- no firm proposal that was likely to deliver better value has been put forward in the eight months since October 2012. Moreover, there has been no alternative proposal since the announcement of the agreed offer on 26 April 2013. Up until the signing of the Implementation Deed (being 25 April 2013), GrainCorp and its advisers engaged in discussions with certain industry participants to assess potential interest.

In this context, it should be noted that two of the more obvious acquirers, Glencore and Cargill, already have substantial existing operations in Australia and could face significant ACCC issues.

In Grant Samuel's opinion:

- while there is a possibility of a higher alternative offer, it is relatively unlikely; and
- it would be imprudent for shareholders to reject the ADM Offer in anticipation of a higher offer from ADM Australia or a third party.

7.3.4 Franking Credit Benefits

The total consideration of \$13.20 per share includes dividends of \$1.00 per share which are expected to be fully franked.

In Grant Samuel's opinion, it is not appropriate for the assessment of the ADM Offer to either:

- factor into the value of GrainCorp the value of the franking credits held by GrainCorp; or
- include in the value of the offer the value of the credits attached to any dividend that forms part of the consideration.

The reasons are manifold but not the least of these is that the franking credits do not have value to a company per se but instead only have value to the shareholders of a company (when attached to dividends) and, moreover, the value of those credits to each shareholder varies depending on their individual circumstances (from zero to \$1 per \$1 of franking credit).

Nevertheless, it needs to be recognised that, where part of a takeover offer comprises a fully franked dividend, some shareholders may receive additional value from the franking credits (i.e. they are better off in after tax terms than they would have been had the same amount been paid as part of the acquisition price and been received as a capital gain).

The following table shows the net benefits for certain types of shareholders (assuming the shares are held on capital account):



Franking Credit Benefit Analysis (\$)					
	Foreign Shareholder ¹²⁶	Australian Resident Individual ¹²⁷		Australian Super-annuation Fund ¹²⁷	Australian Corporation
		45% Marginal Rate	30% Marginal Rate		
1. \$1.00 received as Fully Franked Dividend					
Dividend	1.00	1.00	1.00	1.00	1.00
Franking credit	-	0.43	0.43	0.43	0.43
Gross taxable income	1.00	1.43	1.43	1.43	1.43
Tax payable	-	(0.66)	(0.45)	(0.21)	(0.43)
Credits	-	0.43	0.43	0.43	0.43
Net tax payable	-	(0.23)	(0.02)	0.22	-
Net after tax income	1.00	0.77	0.98	1.22	1.00
2. \$1.00 received as Capital Gain					
Gain	1.00	1.00	1.00	1.00	1.00
Tax payable	-	(0.24)	(0.17)	(0.10)	(0.30)
Net after tax income	1.00	0.76	0.83	0.90	0.70
3. Net benefit of dividend	-	0.01	0.15	0.32	0.30

In summary:

- foreign shareholders (who are generally unable to use franking credits) will be no better off, assuming capital gains are taxed at the same rates as dividends;
- individual Australian resident shareholders on the top marginal rate (45% plus Medicare levy) and holding the shares for more than 12 months will be very marginally better off (less than 1 cent per \$1.00 of dividend);
- individuals on rates below the top marginal rates and superannuation funds will be better off by varying amounts (up to 43 cents);
- individuals holding the shares on “revenue account” or owning the shares for less than 12 months (at the time of disposal) will be worse off; and
- corporations will be better off by 30 cents per \$1.00 of consideration.

7.3.5 Impact of Less than 100% Acquisition by ADM Australia

The ADM Offer is subject to a 50.1% minimum acceptance condition. ADM Australia has therefore indicated that it is prepared to be in a situation where it owns less than 100% of GrainCorp. If the ADM Offer becomes unconditional but ADM Australia acquires less than 90% of GrainCorp’s shares, the implications for remaining GrainCorp shareholders include:

- ADM Australia will control GrainCorp and be able to determine the outcome of resolutions requiring approval of at least 50% of the votes cast by shareholders entitled to vote on the resolution, the composition of the board and dividend policy. At 75% or more ADM Australia would also be able to determine the outcome of special resolutions;
- depending on the final percentage acquired by ADM Australia, the outcome of the ADM Offer may dramatically reduce the liquidity of the market for GrainCorp shares and result in the removal of GrainCorp from, or a materially reduced weighting for GrainCorp in, key market indices, in which case the trading price of GrainCorp shares

¹²⁶ Assumes same tax rate applies to dividend income and capital gain for a foreign shareholder.

¹²⁷ Assumes asset held for more than 12 months and Medicare levy is 1.5%.



will likely be adversely impacted (assuming there is no expectation or speculation as to a “mop up” bid);

- depending on the final percentage acquired by ADM, GrainCorp may be delisted from the ASX (e.g. if it does not meet the ongoing requirements as to number and spread of shareholders and the ASX determines to delist it). In this case, remaining shareholders would hold unlisted shares reducing their ability to realise value; and
- the prospects of receiving a fully priced offer in the future for their investment in GrainCorp will be greatly reduced.

In this circumstance, any remaining shareholders should consider their position carefully.

7.4 Other Matters

There are few issues other than price when shareholders are faced with a cash offer. Other matters that shareholders should take into consideration are:

- if the ADM Offer becomes unconditional, accepting shareholders will be treated as having disposed of their GrainCorp shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the GrainCorp shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. Details of the taxation consequences are set out in Section 5 of the Target’s Statement. If in any doubt, shareholders should consult their own professional adviser; and
- if ADM acquires in excess of 50.1% but less than 90% of GrainCorp, it is currently estimated that GrainCorp will meet transaction and takeover defence costs (including legal and other adviser’s fees, as well as printing and mailing costs) of around \$33 million as a standalone entity (depending on post offer ownership interest). However, if the ADM Offer is withdrawn or lapses (e.g. because of failure to obtain regulatory consents) then it is estimated that GrainCorp will meet costs of approximately \$20 million on a standalone basis (\$9 million of which has already been expensed).

7.5 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert’s report setting out whether in its opinion the ADM Offer is fair and reasonable to GrainCorp shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the ADM Offer, the responsibility for which lies with the directors of GrainCorp.

In any event, the decision whether to accept or reject the ADM Offer is a matter for individual shareholders based on each shareholder’s views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the ADM Offer, shareholders should consult their own professional adviser.

8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 485 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson MCom (Hons) CA (NZ) SF Fin and Caleena Stilwell BBus FCA F Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Celeste Oakley BEc LLB CFA F Fin and Shannon Cox BEc assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the ADM Offer is fair and reasonable to shareholders. Grant Samuel expressly disclaims any liability to any GrainCorp shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target's Statement issued by GrainCorp and has not verified or approved any of the contents of the Target's Statement. Grant Samuel does not accept any responsibility for the contents of the Target's Statement (except for this report).

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with GrainCorp, ADM or ADM Australia or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the ADM Offer. Grant Samuel advises that Grant Samuel Securities Pty Limited ("GS Securities"), a related company of Grant Samuel, was retained by GrainCorp in August 2012 to provide independent advice in connection with a potential equity raising. This assignment was completed in August 2012 and GS Securities received a fixed fee of \$200,000.

Grant Samuel commenced analysis for the purposes of this report in December 2012 prior to the announcement of the ADM Offer. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the ADM Offer.

Grant Samuel had no part in the formulation of the ADM Offer. Its only role has been the preparation of this report.

GRANT SAMUEL



Grant Samuel will receive a fixed fee of \$610,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the ADM Offer. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

8.4 Declarations

GrainCorp has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. GrainCorp has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by GrainCorp are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to GrainCorp and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target's Statement to be sent to shareholders of GrainCorp. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

The accompanying letter dated 24 June 2013 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

24 June 2013



Appendix 1

Broker Consensus Forecasts

GrainCorp has not publicly released earnings forecasts for the year ending 30 September 2013 or beyond. Accordingly, the prospective multiples implied by the valuation of GrainCorp in the Grant Samuel report are based on median broker forecasts.

Set out in the table below is a summary of forecasts prepared by brokers that follow GrainCorp in the Australian stockmarket. When reviewing this data the following should be noted:

- the forecasts presented represent the latest available broker forecasts for GrainCorp;
- as far as Grant Samuel is aware, GrainCorp is currently followed by 14 brokers. Only 10 brokers have updated research on GrainCorp after the announcement of GrainCorp's half year financial results on 16 May 2013;
- the broker forecasts are not prepared on a consistent basis in relation to the treatment of share of net profit after tax from associates. Some brokers include net profit after tax from associates in EBITDA and EBIT while some do not. As Grant Samuel has valued GrainCorp's interests in associates separately, net profit after tax from associates should be excluded from the earnings parameters (except for net profit after tax). In the table below, Grant Samuel has attempted to present the broker forecasts on a common basis. In the one case where EBITDA and EBIT presented included share of net profits after tax of associates and the share of net profit after tax of associates was not separately presented by the broker, the median share of forecast net profit after tax from associates has been deducted; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the EBITDA and EBIT forecasts do not incorporate any one-off adjustments or non-recurring items. Net profit after tax and earnings per share are before non recurring items (if any forecast); and
- EBITDA and EBIT are before interest expenses relating to commodity inventory funding.

GrainCorp – Broker Forecasts for the Year Ending 30 September (\$ millions)																
Broker	Date	Sales Revenue			EBITDA ¹			EBIT ²			Net Profit After Tax ³			Earnings per Share		
		2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Broker 1	16 May 2013	4,457.0	3,953.1	4,017.7	395.2	374.2	387.2	280.2	247.1	257.9	179.0	152.6	165.9	0.79	0.67	0.73
Broker 2	16 May 2013	3,877.1	3,841.4	4,011.9	411.1	438.7	411.7	292.1	314.7	284.7	180.0	189.9	210.2	0.79	0.83	0.92
Broker 3	16 May 2013	3,433.0	3,372.0	3,403.0	387.4	365.6	380.2	282.7	266.9	281.5	171.0	160.2	171.9	0.75	0.70	0.75
Broker 4	16 May 2013	4,516.0	4,216.0	4,338.0	393.0	314.0	362.0	278.0	196.0	238.0	178.0	121.0	150.0	0.78	0.53	0.66
Broker 5	16 May 2013	3,941.0	3,155.7	3,121.3	388.0	390.2	424.1	269.2	269.0	300.3	166.5	158.8	179.4	0.73	0.70	0.79
Broker 6	16 May 2013	4,133.0	3,530.0	3,728.0	398.1	377.8	399.6	286.1	265.1	284.2	181.0	171.0	180.9	0.79	0.75	0.79
Broker 7	16 May 2013	3,805.7	3,831.4	3,903.1	381.6	366.3	358.8	269.4	247.8	238.3	161.3	143.7	137.8	0.74	0.63	0.60
Broker 8	17 May 2013	3,517.7	3,266.9	3,129.0	397.5	373.7	319.3	288.5	261.4	203.6	180.4	166.2	133.4	0.79	0.73	0.58
Broker 9	17 May 2013	4,037.6	3,928.7	4,047.0	391.4	379.6	391.8	276.6	261.4	270.0	170.8	156.2	162.5	0.75	0.68	0.71
Broker 10	16 May 2013	3,270.0	3,196.0	3,253.0	390.0	362.0	358.0	281.0	229.0	208.0	175.0	147.0	145.0	0.76	0.64	0.63
Minimum		3,270.0	3,155.7	3,121.3	381.6	314.0	319.3	269.2	196.0	203.6	161.3	121.0	133.4	0.73	0.53	0.58
Maximum		4,516.0	4,216.0	4,338.0	411.1	438.7	424.1	292.1	314.7	300.3	181.0	189.9	210.2	0.79	0.83	0.92
Median		3,909.1	3,680.7	3,815.6	392.2	374.0	383.7	280.6	261.4	264.0	176.5	157.5	164.2	0.77	0.69	0.72

Source: Brokers' reports, Grant Samuel analysis

- ¹ EBITDA is earnings before net interest (including interest expense relating to commodity inventory funding), tax, depreciation, amortisation, investment income (including share of net profit after tax of associates) and significant non-recurring items
- ² EBIT is earnings before net interest (including interest expense relating to commodity inventory funding), tax, investment income (including share of net profit after tax of associates) and significant non-recurring items
- ³ Net profit after tax is before non-recurring items (if any forecast) and after share of net profit after tax of associates.

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As Grant Samuel has valued each of GrainCorp's business units separately, the prospective earnings multiples implied by each valuation are based on median broker forecasts for the business units. However, not all brokers that follow GrainCorp provide earnings forecasts by business unit or both EBITDA and EBIT forecasts by business unit. Grant Samuel has analysed the available brokers forecasts for GrainCorp's business units and equity accounted associates as follows:

Storage & Logistics

Storage & Logistics – Broker Forecasts for the Year Ending 30 September (\$ millions)							
Broker	Date	EBITDA			EBIT		
		2013	2014	2015	2013	2014	2015
Broker 1	16 May 2013	193.7	168.9	170.1	na	na	na
Broker 2	16 May 2013	na	na	na	157.2	175.5	152.5
Broker 3	16 May 2013	na	na	na	133.6	105.2	117.6
Broker 4	16 May 2013	na	na	na	146.2 ¹	68.2 ¹	112.5 ¹
Broker 5	16 May 2013	na	na	na	na	na	na
Broker 6	16 May 2013	191.2	142.3	150.3	na	na	na
Broker 7	16 May 2013	na	na	na	142.0	93.6	71.6
Broker 8	17 May 2013	na	na	na	na	na	na
Broker 9	17 May 2013	na	na	na	na	na	na
Broker 10	16 May 2013	na	na	na	na	na	na
<i>Minimum</i>		<i>191.2</i>	<i>142.3</i>	<i>150.3</i>	<i>133.6</i>	<i>68.2</i>	<i>71.6</i>
<i>Maximum</i>		<i>193.7</i>	<i>168.9</i>	<i>170.1</i>	<i>157.2</i>	<i>175.5</i>	<i>152.5</i>
<i>Median</i>		<i>192.5</i>	<i>155.6</i>	<i>160.2</i>	<i>144.1</i>	<i>99.4</i>	<i>115.1</i>

Source: Brokers' reports, Grant Samuel analysis

GrainCorp Marketing

As far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the EBITDA and EBIT forecasts for GrainCorp Marketing are before interest expense relating to commodity inventory funding.

GrainCorp Marketing – Broker Forecasts for the Year Ending 30 September (\$ millions)							
Broker	Date	EBITDA			EBIT		
		2013	2014	2015	2013	2014	2015
Broker 1	16 May 2013	52.0	48.2	49.7	na	na	na
Broker 2	16 May 2013	na	na	na	41.9	44.0	42.8
Broker 3	16 May 2013	na	na	na	50.6	48.0	47.0
Broker 4	16 May 2013	na	na	na	48.3 ¹	42.8 ¹	43.9 ¹
Broker 5	16 May 2013	na	na	na	na	na	na
Broker 6	16 May 2013	53.3	66.4	72.9	na	na	na
Broker 7	16 May 2013	na	na	na	40.3	41.6	42.8
Broker 8	17 May 2013	na	na	na	na	na	na
Broker 9	17 May 2013	na	na	na	na	na	na
Broker 10	16 May 2013	na	na	na	na	na	na
<i>Minimum</i>		<i>52.0</i>	<i>48.2</i>	<i>49.7</i>	<i>40.3</i>	<i>41.6</i>	<i>42.8</i>
<i>Maximum</i>		<i>53.3</i>	<i>66.4</i>	<i>72.9</i>	<i>50.6</i>	<i>48.0</i>	<i>47.0</i>
<i>Median</i>		<i>52.7</i>	<i>57.3</i>	<i>61.3</i>	<i>45.1</i>	<i>43.4</i>	<i>43.4</i>

Source: Brokers' reports, Grant Samuel analysis

¹ Broker 4 presented EBITA by segment but not EBIT by segment. In deriving EBIT on a segment basis, Grant Samuel has assumed that all amortisation relates to GrainCorp Malt.

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GrainCorp Malt

GrainCorp Malt – Broker Forecasts for the Year Ending 30 September (\$ millions)							
Broker	Date	EBITDA			EBIT		
		2013	2014	2015	2013	2014	2015
Broker 1	16 May 2013	108.1	110.1	110.1	na	na	na
Broker 2	16 May 2013	na	na	na	69.7	69.5	68.1
Broker 3	16 May 2013	na	na	na	77.7	89.1	91.3
Broker 4	16 May 2013	na	na	na	69.6 ¹	73.9 ¹	73.8 ¹
Broker 5	16 May 2013	na	na	na	na	na	na
Broker 6	16 May 2013	112.7	124.7	126.7	na	na	na
Broker 7	16 May 2013	na	na	na	72.9	93.0	101.8
Broker 8	17 May 2013	na	na	na	na	na	na
Broker 9	17 May 2013	na	na	na	na	na	na
Broker 10	16 May 2013	na	na	na	na	na	na
<i>Minimum</i>		<i>108.1</i>	<i>110.1</i>	<i>110.1</i>	<i>69.6</i>	<i>69.5</i>	<i>68.1</i>
<i>Maximum</i>		<i>112.7</i>	<i>124.7</i>	<i>126.7</i>	<i>77.7</i>	<i>93.0</i>	<i>101.8</i>
<i>Median</i>		<i>110.4</i>	<i>117.4</i>	<i>118.4</i>	<i>71.3</i>	<i>81.5</i>	<i>82.6</i>

Source: Brokers' reports, Grant Samuel analysis

GrainCorp Oils

GrainCorp Oils – Broker Forecasts for the Year Ending 30 September (\$ millions)							
Broker	Date	EBITDA			EBIT		
		2013	2014	2015	2013	2014	2015
Broker 1	16 May 2013	67.8	73.9	84.9	na	na	na
Broker 2	16 May 2013	na	na	na	51.0	53.6	48.7
Broker 3	16 May 2013	na	na	na	na	na	na
Broker 4	16 May 2013	na	na	na	41.6 ¹	40.0 ¹	37.9 ¹
Broker 5	16 May 2013	na	na	na	na	na	na
Broker 6	16 May 2013	66.2	70.5	76.5	na	na	na
Broker 7	16 May 2013	na	na	na	41.7	47.1	49.6
Broker 8	17 May 2013	na	na	na	na	na	na
Broker 9	17 May 2013	na	na	na	na	na	na
Broker 10	16 May 2013	na	na	na	na	na	na
<i>Minimum</i>		<i>66.2</i>	<i>70.5</i>	<i>76.5</i>	<i>41.6</i>	<i>40.0</i>	<i>37.9</i>
<i>Maximum</i>		<i>67.8</i>	<i>73.9</i>	<i>84.9</i>	<i>51.0</i>	<i>53.6</i>	<i>49.6</i>
<i>Median</i>		<i>67.0</i>	<i>72.2</i>	<i>80.7</i>	<i>41.7</i>	<i>47.1</i>	<i>48.7</i>

Source: Brokers' reports, Grant Samuel analysis

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Allied Mills

Set out below are broker forecasts for GrainCorp's 60% interest in Allied Mills' net profit after tax:

Allied Mills – Broker Forecasts for the Year Ending 30 September (\$ millions)					
Broker	Date		Net Profit After Tax (GrainCorp 60% interest)		
			2013	2014	2015
Broker 1	16 May 2013		11.7	12.2	12.6
Broker 2	16 May 2013		10.7	10.7	10.7
Broker 3	16 May 2013		10.1	10.3	10.2
Broker 4	16 May 2013		11.5	11.9	12.4
Broker 5	16 May 2013		10.6	10.9	11.3
Broker 6	16 May 2013		11.5	11.8	12.1
Broker 7	16 May 2013		10.6	11.7	12.2
Broker 8	17 May 2013		na	na	na
Broker 9	17 May 2013		na	na	na
Broker 10	16 May 2013		na	na	na
<i>Minimum</i>			<i>10.1</i>	<i>10.3</i>	<i>10.2</i>
<i>Maximum</i>			<i>11.7</i>	<i>12.2</i>	<i>12.6</i>
<i>Median</i>			<i>10.7</i>	<i>11.3</i>	<i>11.7</i>

Source: Brokers' reports, Grant Samuel analysis

Appendix 2

Market Evidence - Comparable Listed Companies

The sharemarket ratings of selected listed international grain companies are set out below.

Sharemarket Ratings of Selected Listed Companies – Grain Industry ¹											
Company	Market Capitalisation ² (millions)	EBITDA Multiple ³ (times)			EBIT Multiple ⁴ (times)			Price Earnings Multiple ⁵ (times)			Ungeared NTA ⁶ Multiple (times)
		2012	2013	2014	2012	2013	2014	2012	2013	2014	
<i>North America</i>											
ADM	US\$21,790	9.0	8.5	7.5	13.0	12.4	10.2	14.4	13.8	11.1	1.2
Bunge	US\$11,305	10.2	6.9	6.7	15.7	9.4	8.9	17.4	9.7	8.9	1.1
Ingredion	US\$5,242	7.3	7.0	6.5	9.5	9.0	8.2	11.5	11.4	10.4	2.3
The Andersons	US\$1,007	9.3	9.0	7.8	12.7	11.9	9.7	12.6	13.4	10.9	1.4
Alliance Grain Traders	C\$288	16.3	10.2	8.4	24.9	13.1	10.3	32.1	15.7	9.0	1.2
<i>Asia</i>											
Wilmar	S\$20,731	12.0	9.0	8.2	15.9	11.5	10.4	13.4	11.5	10.3	1.3
Noble Group	S\$6,847	8.3	7.6	6.8	11.2	9.1	7.7	11.2	9.4	7.7	1.1
Olam	S\$3,956	11.8	9.9	8.7	13.8	11.7	10.2	11.6	10.3	8.6	1.1

Source: Grant Samuel analysis⁷

The multiples shown above are based on sharemarket prices as at 20 June 2013 and do not reflect a premium for control.

All of the companies have a 31 December year end with the exception of Olam International Limited (“Olam”) which has a 30 June year end and Archer Daniels Midland Company (“ADM”) which is in the process of converting to a 31 December year end.

The data analysed for each company included the last two annual historical results plus the subsequent two forecast years. However, the data presented above represents an alignment of the financial data to allow comparison of the sharemarket ratings on a calendar year basis. Under this alignment, the earnings for Olam have been converted to a 31 December year end based on half yearly company announcements and broker forecasts.

A brief description of each company is set out below:

Archer Daniels Midland Company

ADM is a global agriculture business that procures, transports, stores, processes and markets a wide range of agricultural products. It is also one of the largest processors of oilseeds, corn, wheat and cocoa. It operates three business segments: Oilseed Processing, Corn Processing and Agricultural Services. The Oilseeds Processing segment originates, merchandises, crushes, and processes oilseeds, such as soybeans and soft seeds into

¹ The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

² Market capitalisation based on sharemarket prices as at 20 June 2013.

³ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash and non operating assets (net) as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

⁴ Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

⁵ Represents market capitalisation divided by net profit after tax (before significant and non-recurring items).

⁶ Represents gross capitalisation divided by ungeared net tangible assets (that is, shareholders' funds less intangibles, plus borrowings less cash and non operating assets (net) as at the latest balance date).

⁷ Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.



vegetable oils and protein meals. The Corn Processing segment converts corn into sweeteners, starches, and bio products. Agricultural Services engages in buying, storing, cleaning and transporting agricultural commodities and reselling those commodities primarily as food and feed ingredients. This segment is also involved in the merchandising of agricultural commodities and processed products; origination and processing of wheat flour; and processing and distribution of formula feeds, animal health and nutrition products, and edible beans. In the year to 31 December 2012, EBITDA comprised: Oilseed Processing (52%), Corn Processing (17%) and Agricultural Services (28%). Approximately half of ADM's revenue is generated in the United States. With its assets heavily leveraged towards United States crop production (74% of assets at 30 June 2012) the drought in the United States had a material negative impact on earnings in 2012 (despite higher soy crush margins) resulting in higher multiples for this period. In December 2012, ADM sold its equity accounted 23.22% interest in Gruma S.A.B. de CV for US\$510 million. 2013 earnings are expected to be adversely affected by low inventories and weak demand (and excess capacity) for ethanol. Brokers' forecasts for 2014 reflect more "normalised" earnings.

Bunge Limited

Bunge Limited ("Bunge") is a leading agribusiness and food processing company and operates an integrated farm-to-consumer food chain model globally. It operates in five segments: Agribusiness, Edible Oils, Milling Products, Sugar and Bioenergy and Fertiliser. Agribusiness is involved in purchasing, storing, transporting, processing, and selling agricultural commodities and commodity products such as grains. Sugar and Bioenergy produces and sells sugar and ethanol, generates electricity from burning sugarcane bagasse, trades and merchandises sugar and owns and manages sugarcane plantations. Edible Oils offers packaged vegetable and bulk oil products to food manufacturers, distributors and retailers. The Milling Products segment produces and sells various wheat and corn products and bakery mixes to industrial, bakery, and foodservice companies. The Fertilizer segment produces, blends, and distributes nitrogen, phosphate, and potash formulations for the agriculture industry. In the year to 31 December 2012, EBITDA comprised: Agribusiness (75%), Edible Oils (10%), Milling Products (9%), Sugar and Bioenergy (3%) and Fertiliser (2%). Bunge's assets are primarily located in South America (54%), North America (18%), Europe (18%) and Asia (8%) with sales distributed fairly evenly between continents. Although Bunge's operations are more geographically diversified than its United States peers (i.e. lower exposure to the United States drought), earnings in 2012 were negatively impacted by weak ethanol and sugar prices and the outcome of poor trading decisions (i.e. the accumulation of large soy inventories in a declining price environment), resulting in higher multiples. The Sugar and Bioenergy Division incurred a US\$514 million impairment in 2012, which has been excluded from the calculation of the multiples. In December 2012, Bunge sold a Brazilian fertiliser business for US\$750 million. Earnings from this business are included in discontinued earnings for 2012. Earnings in 2013 are expected to be impacted by weak sugar prices, followed by a recovery in 2014.

Ingredion, Inc.

Ingredion, Inc. ("Ingredion") is a global ingredients producer; it processes corn, tapioca, wheat, potatoes and other raw materials into ingredients for the food, beverage, brewing and pharmaceutical industries as well as industrial sectors. It services customers in over 40 countries. Ingredion's EBITDA in the year to 31 December 2012 was primarily generated in North America (54%), South America (24%), the Asia Pacific region (12%) and Europe, the Middle East and Africa (9%). Its products comprise sweeteners (including glucose, high maltose and high fructose corn syrups) and starch based products (such as industrial and food grade starches). It also provides refined corn oil to packers of cooking oil and producers of margarine, salad dressings, shortening, mayonnaise and other foods and corn gluten feed used as protein feed for chickens, pet food and aquaculture. Ingredion's earnings multiples are relatively low and its multiple of ungeared NTA is relatively high. Ingredion has a large retail focus, substantial value attributed to brands and it is less capital intensive than grain companies.

The Andersons Inc.

The Andersons Inc. ("The Andersons") is based in the United States with interests in the agriculture and transportation industries. It operates in six segments: Grain, Rail, Plant Nutrient, Turf & Specialty, Ethanol and Retail. The Grain segment operates grain elevators, is involved in the storage, merchandising, and trading of grains and offers marketing, risk management and corn origination services. The Ethanol segment operates three ethanol production facilities. The Rail segment buys, sells, leases, rebuilds, and repairs railcars and locomotives. The Plant Nutrient segment manufactures, distributes and retails dry and liquid agricultural nutrients and pelleted lime and gypsum products to agricultural farm supply dealers. The Turf & Specialty segment produces granular fertiliser and control products for the turf and ornamental markets while the Retail segment operates seven home



products outlets. In the year to 31 December 2012 EBITDA comprised: Grain (41%); Rail (30%); Plant Nutrient (26%); Turf & Specialty (3%); Ethanol (1%); and Retail (nil). The company experienced mixed results in 2012 with the grain business negatively impacted by materially lower crop production and the ethanol business challenged by high corn prices, low United States petrol demand and low ethanol exports. No adjustment has been made to exclude equity accounted associates, which are integral to the business. The Andersons' multiple of ungeared NTA is relatively high, likely as substantial value is attributed to brands. The relatively high multiples in part reflect that debt is at peak levels as purchases of grain have been funded by a short term debt facility. Assuming average borrowings over the 12 months to 31 March 2013, the multiples reduce to 7.2 times 2014 EBITDA and 8.9 times 2014 EBIT. The Andersons made a number of acquisitions in 2012 and, therefore, the historical earnings multiples are not meaningful.

Alliance Grain Traders Inc.

Alliance Grain Traders Inc. ("Alliance Grain Traders") is one of the largest lentil and pea splitting companies in the world. It sources a range of specialty crops including lentils, peas, beans and chickpeas from growers at 29 facilities in Canada, the United States, Turkey, Australia, China and South Africa and ships them to over 100 countries around the globe. In the year ended 31 December 2012, pulses and grain processing accounted for approximately 69% of revenue and supply chain management accounted for the remaining 31%. 2012 multiples are high due to lower earnings as a result of weak demand for lentils, surplus inventory in Canada and resulting lower prices. In 2013, higher export volume is expected to increase prices as inventories are reduced. The founders hold a 21.8% interest in Alliance Grain Traders.

Wilmar International Limited

Wilmar International Limited ("Wilmar") is listed on the Singapore Stock Exchange and is a leading agribusiness in Asia. It operates an integrated agribusiness model that encompasses the entire value chain of the agricultural commodity processing business, from origination and processing to branding, merchandising and distribution of a wide range of agricultural products. Its business activities include Merchandising and Processing of Palm and Laurics (38% of EBITDA in the year to 31 December 2012), Merchandising and Processing of Oilseeds and Grains (20%), Consumer Products (8%), Plantation and Palm Oil Mills (16%), Sugar Milling (4%), Sugar Merchandising and Processing (5%) and Other (10%). It has over 400 manufacturing plants and an extensive distribution network throughout China, India, Indonesia and approximately 50 other countries. Its operations are focused in South East Asia (45% of assets), China (38%) and Australia and New Zealand (12%). The earnings multiples for Wilmar are relatively high reflecting its exposure to growth regions in Asia, its integrated business model and its limited free float estimated at around 44%. Wilmar's major shareholders include Kuok Group (31%), Kuok Khoong Hong (Wilmar's Chief Executive Officer) (8%), Martua Sitorus (Wilmar's Chief Operating Officer) (6%) and ADM (11%).

Noble Group Limited

Noble Group Limited ("Noble Group") is a diversified natural resources supply chain manager with operations in agriculture, energy and metals, minerals and ores. It is based listed on the Singapore Stock Exchange but based in Hong Kong. The Agriculture segment engages in the sourcing, processing, storage, and marketing of grains and oilseeds, sugar, palm oil, coffee, cotton, cocoa, and fertilizers. The Energy segment is involved in energy and metallurgical coal, oil liquids and clean fuels, gas and power, and polymers businesses. The Metals, Minerals and Ores segment provides iron ores, manganese ore/chrome ores, alumina/aluminium products, base metals, ferro alloys, and special ores, as well as engages in London Metal Exchange warehousing business. In the year to 31 December 2012 EBITDA comprised: Agriculture (38%); Energy (54%); and Metals, Minerals and Ores (7%).

Noble Group's multiples reflect its blend of businesses as well as current conditions and expectations in its various markets. In 2012 Noble Group's earnings have been impacted by soft soybean crush margins (which offset improvement in the sugar business) and lower liquidity in the United States power markets due to new regulation. Earnings in 2013 are expected to improve based on stronger Chinese economic growth and \$100 million in targeted cost savings. The multiples for Noble Group also reflect its limited free float estimated at around 50%. Noble Group's major shareholders include Noble Holdings Limited (21.1%) and Best Investment Corporation (14.4%).

***Olam International Limited***

Olam is a global integrated supply chain manager and processor of agricultural products and food ingredients, supplying various products across 65 countries. It is based in Asia (approximately 44% of non current assets are located in Asia, the Middle East and Australia) and listed on the Singapore Stock Exchange. It operates in five segments: Edible Nuts, Spices and Beans (28% of EBITDA for the year to 30 June 2012), Confectionery and Beverage Ingredients (30%), Food Staples and Packaged Foods (27%), Industrial Raw Materials (15%) and Commodity Financial Services (nil). Olam's multiples reflect its exposure to the high growth Asian and African markets (which account for 28% and 19% of sales respectively) and its relatively limited free float estimated at 56%. Olam's major shareholders include Temasek Holdings (Private) Limited (24%) and Chanrai Investment Corporation Limited (20% interest). In addition, Olam made a number of acquisitions in 2012 and, therefore, the historical earnings multiples are not meaningful.

Appendix 3

Market Evidence - Transactions

Set out below is a summary of recent transactions involving companies in the agribusiness sector in Australia and internationally for which there is sufficient information to calculate meaningful valuation parameters. This analysis is focussed on transactions involving activities in which GrainCorp Limited ("GrainCorp") is involved (i.e. grain handling and marketing, flour milling, malt processing and oilseed processing). The following factors are relevant to consideration of the transaction evidence:

- the Australian grain handling and marketing industry changed fundamentally following deregulation of wheat exports in July 2008. The abolition of the "single desk" enabled other parties to provide services along the grain supply chain resulting in a more competitive market. Accordingly, Australian grain handling and marketing transactions prior to 2008 are not meaningful valuation evidence;
- outside Australia grain companies have long operated along the supply chain (although the Canadian grain industry was only fully deregulated in July 2012) and therefore international grain handling transactions which reflect the benefits of supply chain integration have been considered. However, evidence from international transactions needs to be treated with caution as differences between Australian and international growth and inflationary expectations, industry and market conditions (including crop cycles) and differing tax regimes impact on valuations and implied multiples. Nevertheless, a review of international transactions provides some valuation guidance; and
- most grains industry transactions involve businesses with a range of activities beyond the grain supply chain such as rural services or agri-products. Consequently, the valuation parameters implied by many of the transactions reflect the blend of activities and provide limited guidance in relation to the individual business units of GrainCorp.

Recent Transaction Evidence – Selected Global Agribusiness										
Date	Target	Acquirer	Consideration ¹ (millions)	Revenue Multiple ² (times)		EBITDA Multiple ³ (times)		EBIT Multiple ⁴ (times)		Ungeared NTA Multiple ⁵ (times)
				Historical ⁶	Forecast ⁶	Historical	Forecast	Historical	Forecast	
Grain Handling and Marketing										
May 12	Gavilon	Marubeni	US\$3,600	0.3	na ⁷	na	9.0	na	na	1.5 ⁸
Mar 12	Viterra (ex Agri-Products)	Glencore	C\$4,633	0.6	0.5	9.7-10.7	9.0-9.9	13.0-14.9	12.4-14.1	na
Dec 10	AWB’s Commodity Business	Cargill	A\$925	0.2	na	9.3	na	10.3	na	na
Aug 10	AWB	Agrium	A\$1,237	0.2	0.3	10.8	13.7	13.0	17.4	1.1
May 09	ABB	Viterra	A\$1,609	nmf ⁹	0.8-0.9	nmf	9.6-10.0	nmf	11.5-12.1	1.7-1.8
Nov 06	Agricore	Saskatchewan Wheat Pool	C\$1,261	0.6	0.6	13.1	11.3	22.4	17.6	1.6

¹ Implied equity value if 100% of the company or business had been acquired.

² Represents gross consideration divided by revenue. Gross consideration is the sum of the equity and/or cash consideration plus borrowings net of cash.

³ Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

⁴ Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

⁵ Represents gross consideration divided by ungeared net tangible assets (that is, net assets less intangibles plus borrowings less cash as at latest balance date).

⁶ Historical multiples are based on the most recent publicly available full year earnings prior to the transaction announcement date. Forecast multiples are based on company published earnings forecasts or brokers' reports available at transaction announcement date.

⁷ na = not available

⁸ Calculation is gross consideration divided by ungeared net assets as details of intangible assets are not available.

⁹ nmf = not meaningful

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Recent Transaction Evidence – Selected Global Agribusiness										
Date	Target	Acquirer	Consid- eration (millions)	Revenue Multiple (times)		EBITDA Multiple (times)		EBIT Multiple (times)		Ungeared NTA Multiple (times)
				Historical	Forecast	Historical	Forecast	Historical	Forecast	
Flour Milling										
Dec 12	Champion Flour Milling	Nisshin	NZ\$51	na	na	na	na	4.1	na	na
Dec 08	Dover Industries	Parrish & Heimbecker	C\$132	0.7	na	10.9	na	17.5	na	1.5
May 07	Nitto Fuji Flour Milling	Mitsubishi Corporation	¥16,712	0.3	na	6.2	na	11.6	na	0.5
Dec 06	RHM	Premier Foods	£1,226	1.4	1.3	9.5	9.2	12.2	12.0	6.2
Mar 04	International Multifoods	J M Smucker	US\$516	0.9	na	10.3	na	14.1	na	2.0
Aug 02	Goodman Fielder Australian Milling	Allied Mills	A\$233	0.5 ¹⁰	na	6.7	5.3	9.4	6.8	1.0
Malt Processing										
Jul 11	Schill Malz	GrainCorp	€40	0.8	na	7.3 ¹¹	8.3	na	na	na
Feb 10	Greencore's Malting Business	Boortmalt	€101	0.5	na	4.3	5.3	5.5	7.1	2.5
Oct 09	United Malt Holdings ¹²	GrainCorp	US\$665	0.8	na	6.7	6.7	7.5	7.5	2.5
Nov 02	Joe White Maltings	AusBulk	A\$144	1.0	na	7.9	na	10.3	na	1.8
Oilseed and Vegetable Oil Processing										
Dec 12	Tradewinds Malaysia ¹³	Consortium	MYR2,758	0.8	na	8.4	na	12.0	na	1.0
Dec 12	Westway	EQT Partners	US\$421	1.2	na	10.2	na	23.0	na	1.7
Aug 12	Gardner Smith Group	GrainCorp	A\$302	na	na	9.2	na	17.4	na	na
Aug 12	Integro Foods	GrainCorp	A\$170	na	na	5.5	na	6.4	na	1.0
Aug 11	Elstar Oils	ADM	PLN313	0.6	na	15.6	na	29.5	na	1.5
Dec 06	PPB Oil ¹⁴	Wilmar	MYR4,029	6.2	4.6	17.1	10.3	20.6	11.9	2.3
Jun 05	Aarhus United	BNS	DKK2,000	0.6	na	7.5	na	11.8	na	0.6
Jul 02	Cereol SA	Bunge	€822	0.3	0.3	5.5	5.2	8.3	8.0	1.1
Other Agribusiness (Australia)										
Jul 10	Sucrogen	Wilmar	A\$1,750	1.0	1.0	8.9	na	12.9	11.9	na
Mar 07	Queensland Cotton	Olam	A\$167	0.5	na	13.0	na	23.9	na	1.1

Source: Grant Samuel analysis¹⁵

A brief summary of each transaction is set out below.

Grain Handling and Marketing

Gavilon LLC / Marubeni Corporation

On 29 May 2012, Marubeni Corporation ("Marubeni") entered into an agreement to acquire Gavilon, LLC ("Gavilon") for US\$3.6 billion. Gavilon owns and operates a United States based grains, fertiliser and energy commodities distribution and storage network and is the third largest grain company behind Archer Daniels Midland Company ("ADM") and Cargill, Inc. ("Cargill"). The Grain segment operates a distribution network

¹⁰ Revenue includes internal sales as Allied Mills entered into an agreement for the supply of flour based products to Goodman Fielder.

¹¹ Based on five year average EBITDA.

¹² Based on United States dollar denominated acquisition price and EBITDA. This is higher than announced (5.7 times) which was based on an Australian dollar price converted at US\$:A\$0.865 and Australian dollar EBITDA based on US\$:A\$0.7472.

¹³ Historical multiples for Tradewinds Malaysia are based on actual results for the 12 months to 31 December 2012.

¹⁴ Historical multiples for PPB Oil are based on actual results for the 12 months to 31 December 2006.

¹⁵ Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

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with more than 140 grain facilities across North America and the third largest grain storage network in the United States with distribution marketing offices in Australia, the Ukraine and Brazil. The Fertilizer segment operates one of the largest United States wholesale fertiliser networks with 74 storage and handling facilities across the United States, Mexico, South America and Africa. The Energy segment operates a trading business mainly dealing in crude oil, natural gas and fuels. In 2011 EBITDA comprised: Grain, 62%; Fertiliser, 18%; and Energy, 20%¹⁶. The merged group will be the second largest grains business in the United States with a storage capacity of 9.5 million tons. Brokers reported that Marubeni management stated (in an investor call) that EBITDA was expected to be US\$600 million (and would grow at 2.5% per annum) and net profit after tax was expected to be US\$300 million. The transaction is expected to result in synergies between Gaviion's grain handling business in the United States and Marubeni's Asian sales network.

Viterra, Inc. / Glencore International plc

On 20 March 2012, Glencore International plc ("Glencore") signed a definitive agreement to acquire Viterra, Inc. ("Viterra") for C\$6.1 billion. Viterra is a Canadian based vertically integrated agribusiness company. In addition to ownership of ABB Grain Limited ("ABB") (the third largest Australian grain handler which it acquired in 2009) Viterra's business operations comprised: handling and marketing of grains from western Canada (over 40% market share), the manufacture, distribution and retailing of crop inputs in Canada ("Agri-Products"), oat milling and barley malting in North America ("Agri-Food") and other businesses including livestock feed mills and financial products.

Glencore also announced that it had on sold the majority (stated to be 90%) of Viterra's Agri-Products business to Agrium Inc. ("Agrium") for approximately C\$1.8 billion and 23% of Viterra's Canadian grain handling assets and certain other assets to Richardson International Limited for C\$0.8 billion. The effective multiple paid by Glencore for its share of Viterra is net of these transactions. However, limited information is available on the level of earnings that went with these businesses (and the residual retained by Glencore). Grant Samuel has made an adjustment for the Agri-Products sale based on reported divisional results for the division and assuming the total value for the Agri-Products business was C\$1.97 billion (grossing up Agrium's purchase price to a 100% value). The consideration and multiples presented in the table are calculated on a net basis (i.e. excluding the consideration and earnings relating to 100% of Agri-Products).

Viterra expected C\$40-50 million of EBITDA benefits to arise from deregulation of the Canadian wheat industry (from 2014 onwards). The multiples reflect these incremental earnings. Furthermore, Viterra incurred C\$176 million of unallocated corporate costs in 2012 (at the EBIT level) and, presumably, some of these related to Agri-Products and would have been eliminated on sale of the business. The low end of the range of multiples assumes \$50 million of corporate costs are allocated to the Agri-Products business. No allowance has been made for synergy benefits able to be extracted by Glencore which are likely to have been material.

AWB's Commodity Business / Cargill Inc.

On 15 December 2010, Cargill entered into a definitive agreement to acquire a majority of the commodity businesses of AWB Limited ("AWB") from Agrium for A\$870 million. Cargill's consideration did not include certain assets that Agrium proposed to sell separately. Agrium attributed a value of A\$55 million to these businesses. Consequently, the total value for AWB's combined commodities business units is A\$925 million. This transaction followed shortly after Agrium had successfully taken over AWB. Agrium retained AWB's rural services business (Landmark). AWB's commodity business comprised marketing of Australian grain, grain logistics including storage, handling and freight as well as various investments including milling, pool management services and harvest finance and international commodity management (marketing and trading grain internationally).

Reported earnings for the year to 30 September 2010 for the combined commodities business units were EBITDA of A\$80 million and EBIT of A\$70 million (including income from associates (A\$5 million) and before corporate costs). These earnings also include net interest income on pass through harvest finance debt, however, this does not materially distort the analysis. These results, particularly for grain marketing were significantly adversely affected by a variety of factors which included reduced volumes (the 2009/10 crop was down on the previous year, albeit up substantially from the earlier drought affected years). The independent

¹⁶ Source: broker reports

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expert on the transaction assessed a higher level of EBIT for the grain marketing business (A\$25-30 million compared to A\$5 million generated for 2010) for valuation purposes based largely on the average of the previous four years. The multiples in the table are based on Grant Samuel's assessment of a "normalised" earnings level for AWB's combined commodities business units, exclude corporate costs attributable to the commodity business and exclude any synergy benefits able to be extracted by Cargill which are likely to have been material.

AWB Limited / Agrium, Inc.

On 20 August 2010, AWB entered into a scheme implementation deed with Agrium under which Agrium would acquire all of the issued capital of AWB for A\$1.2 billion. AWB's business operations comprised rural services, international commodity management (marketing and trading grain internationally), marketing of Australian grain, pool management services and harvest finance and logistics (including operation of 22 regional storage and handling facilities across Australia's eastern states storage, freight and various investments including milling). Earnings for the three years to 30 September 2009 comprise rural services (38%), international commodity management (30%), grain marketing (22%), pool management and harvest finance (13%) and logistics and other investments (3%). The implied multiples reflect the mix of business (i.e. include relatively low margin rural services). Agrium's primary strategic rationale for acquiring AWB was the rural services segment and the agribusiness segment was sold shortly after to Cargill. The forecast multiple is higher than the historical multiple reflecting an expectation of lower earnings from grain marketing following deregulation.

ABB Grain Ltd / Viterra, Inc.

On 19 May 2009, Viterra entered into an implementation agreement to acquire ABB for approximately A\$1.6 billion.¹⁷ ABB's business operations comprised grain handling including storage, rail and port operations (it was the third largest operator in the Australian market after GrainCorp and CBH but its primary focus was South Australia), grain marketing (initially concentrated on barley but expanded into wheat following deregulation in July 2008), malt manufacturing (Joe White Maltings was the largest Australian maltster with a share of the global traded malt market of more than 7%) and rural services supplying farm inputs (including financial services and marketing output e.g. wool broking). Grain handling and marketing each contributed around 35% of EBITDA over the three years to 30 September 2008 while malt manufacturing contributed 24% and rural services contributed 5%.

Debt is based on the independent expert's assessment of average net debt across the year (\$400-500 million) rather than the latest balance date.

ABB's earnings for the year ended 30 September 2007 were severely impacted by drought, producing one of the lowest ever Australian grain crops. While earnings improved materially in 2008 and were expected to continue to strengthen in 2009, they reflected receivables at levels still well below historical norms. Multiples based on these earnings parameters are therefore overstated. Therefore, forecast earnings for the year to 30 September 2010 have been used as the best proxy for normalised earnings. The independent expert's report stated that consensus broker forecasts for 2010 was EBITDA of A\$210 million. The forecasts appear to generally be based on crop sizes broadly consistent with ABB's average of 5-6 mtpa¹⁸. Grant Samuel has assumed depreciation of A\$35 million. The resulting earnings level is consistent with estimates by analysts of "sustainable" earnings for ABB.

Therefore, the multiples presented in the table above are on an adjusted basis. The multiples are for the whole business including the lower rated rural services businesses and the effective multiples for the grain handling, marketing and malt businesses would be slightly higher. The earnings also exclude any synergy benefits able to be extracted by Viterra, anticipated at approximately A\$30 million.

Agricore United / Saskatchewan Wheat Pool, Inc.

On 7 November 2006, Saskatchewan Wheat Pool, Inc. (subsequently renamed "Viterra, Inc.") made an offer to acquire Agricore United ("Agricore"). The offer was revised several times following a bidding war with James Richardson International Limited. The final consideration was approximately C\$1.3 billion. Agricore was a

¹⁷ The offer consideration involved three alternatives. For the purposes of the analysis, the consideration is based on the value of the default alternative on the day of announcement (\$9.26 per share or A\$1,609 million).

¹⁸ mtpa = million tonnes per annum



Canadian agribusiness, with smaller operations in the United States and Japan. In the three years to 31 October 2006, EBITDA was comprised of grain handling (64%), crop production services (i.e. crop nutrition and protection products, seed) (27%) and livestock services (i.e. manufacturing and marketing of livestock feed) (10%). The transaction was expected to result in approximately C\$60 million of synergies. Including these synergies, the forecast multiples implied by the transaction reduce to 8.2 times EBITDA and 11.2 times EBIT.

Flour Milling

Champion Flour Milling/ Nisshin Flour Milling, Inc. and Nisshin Seifun Group Inc.

On 7 December 2012, Goodman Fielder Limited ("Goodman Fielder") announced the sale of its Champion Flour Milling business in New Zealand to Nisshin Seifun Group Inc. and Nisshin Flour Milling, Inc. ("Nisshin"), the largest flour miller in Japan, for NZ\$51 million (excluding net cash proceeds of receivables and payables). In addition, Goodman Fielder entered into a long term supply agreement with Nisshin under which Nisshin will supply flour and related products to Goodman Fielder's New Zealand business. Goodman Fielder will continue to sell flour to retailers, in-store bakeries and hot bread shops, supported by the flour supply agreement with Nisshin. Nisshin will be responsible for supplying to commercial and industrial customers in New Zealand.

Dover Industries Limited / Parrish & Heimbecker Limited

On 4 December 2008, Parrish & Heimbecker Limited entered into a definitive agreement to acquire the remaining 75% of Dover Industries Limited ("Dover Industries") for C\$99.2 million. Dover Industries operates two divisions: a Food Products division, which mills flour in Canada (Ontario, Nova Scotia, Saskatchewan and Quebec); and a Paper Products division, which specialises in the manufacturing of food and beverage containers. In the year ended 31 December 2007, EBITDA comprised: Food Products division, 93%; and Paper Products division, 7%.

Nitto Fuji Flour Milling Co., Ltd / Mitsubishi Corporation

On 18 May 2007, Mitsubishi Corporation ("Mitsubishi") made an offer to acquire an additional 31.28% interest in Nitto Fuji Flour Milling Co., Ltd. ("Nitto Flour Milling") for ¥5.22 billion. The transaction was expected to increase Mitsubishi's interest in Nitto Fuji Flour Milling to 66%. Nitto Fuji Flour Milling operates three divisions: Flour Milling and Foods, Restaurants and Transportation. The Flour Milling and Foods division engages in the manufacture and sale of flour in Japan and offers wheat flour and bran products as well as food and food related stuff. The Restaurants division incorporates the Kentucky Fried Chicken franchise outlets, restaurants and cafes. Transportation includes warehousing, transportation and harbour facility services. In the year ended 31 March 2007, Flour Milling and Foods contributed 88% of operating profit before tax, Restaurants contributed 10% and Transportation contributed 3%.

RHM Plc / Premier Foods Plc

On 4 December 2006, Premier Foods plc ("Premier Foods") announced that it had made an offer to acquire RHM Plc ("RHM") for scrip consideration of £1,226.1 (based on Premier Foods' share price on the date of announcement). RHM's operations comprised four divisions: Bread Bakeries (42% of EBIT for the 12 months to 29 April 2006), Culinary Brands (36%), Cakes (7%) and Customer Partnerships (15%). The Bread Bakeries division was the largest baker and flour miller in the United Kingdom based on volumes with a comprehensive brand and product portfolio. It also manufactured and distributed bulk and bagged flour and frozen semi finished products to retailers. Culinary Brands manufactured, marketed and distributed a range of branded grocery products in the United Kingdom. Customer Partnerships was responsible for RHM's strategic partnerships with Marks & Spencer and Pizza Hut and for managing certain specialist distribution channels, including supplying supermarket chains with frozen pies, ready meals and desserts and distributing the full range of RHM's branded products in Ireland. Premier Foods expected the transaction to generate £85 million in synergies. Including synergies, the forecast multiples implied by the transaction decrease to 6.7 times EBITDA and 8.1 times EBIT. The multiple of ungeared NTA is high (at 6.2) as a result of substantial value attributed to RHM's brand names and other intangible assets.

International Multifoods Corporation / The J. M. Smucker Company

On 8 March 2004, The J. M. Smucker Company announced a definitive agreement to acquire International Multifoods Corporation ("International Multifoods") at US\$25 per share (US\$515.8 million). International



Multifoods operated three divisions: U.S. Consumer Products (74% of EBIT for the 12 months ended 28 February 2004), Foodservice Products (1%) and Canadian Foods (25%). U.S. Consumer Products manufactured, marketed and sold branded consumer foods in the United States, including desserts and baking mixes, Hungry Jack potatoes and pancake mixes. Foodservice Products manufactured, marketed and sold baking mixes and frozen batters, dough and desserts to foodservice operators and retail, wholesale and in-store bakeries. Although unprofitable, Foodservice Products represented 22% of sales. Canadian Foods manufactured and marketed food products in Canada, including consumer branded flour and baking mixes and flour, baking mixes and condiments to foodservice operators and other commercial customers. The multiple of ungeared NTA is relatively high (at 2.0) as a result of substantial value attributed to brand names and other intangible assets.

Goodman Fielder Limited's Australian Milling Business / Allied Mills Pty Limited

On 16 August 2002, Goodman Fielder entered into an agreement to sell its Australian flour milling and mixing business to Allied Mills Pty Limited ('Allied Mills') (a 50/50 joint venture between GrainCorp and Cargill) for approximately A\$233 million. Allied Mills also entered into a long-term agreement to supply flour based products to Goodman Fielder. Therefore, both external and internal sales reported for Goodman Fielder's Australian Milling segment have also been included in the calculation of revenue multiples.

Malt Processing

GermanMalt GmbH & Co. KG / GrainCorp Limited

On 25 July 2011, GrainCorp entered into an agreement to acquire GermanMalt GmbH & Co. KG (renamed "Schill Malz" after acquisition) for €58 million inclusive of €18 million of working capital, predominantly barley inventory. Schill Malz had four malt houses with 190kt¹⁹ of capacity per annum. The transaction implies a multiple of €304 per kt of capacity. GrainCorp disclosed that Schill Malz could be expected to contribute around €8 million EBITDA through the cycle (five year average). The historical EBITDA multiple implied by the transaction is based on this average EBITDA. Earnings for 2012 and 2013 were expected to be lower as a result of weak industry conditions. The transaction increased GrainCorp's presence in the strategically significant European barley and malt markets (in particular France and Germany), provided a strategic fit with GrainCorp and created supply chain advantages. The transaction was expected to result in €1 million of synergies across the malt and grain businesses. Including synergies, the implied multiple declines to 6.5 times historical EBITDA.

Greencore Group plc's Malting Business / Boortmalt NV

On 11 February 2010, Boortmalt NV ("Boortmalt") entered into an agreement to acquire the malt businesses of Greencore Group plc ("Greencore") for €101.4 million. The malt businesses were located in the United Kingdom, Ireland and Belgium and had capacity of 520kt per annum. The transaction implies a multiple of €215 per kt of capacity. The relatively low EBITDA historical multiple reflects the relatively volatile nature of earnings for the business and historically high earnings in 2009 relatively to prior years.

United Malt Holdings, LP / GrainCorp Limited

On 6 October 2009, GrainCorp announced the acquisition of United Malt Holdings, LP ("UMH") for US\$655 million (A\$757 million based on the spot A\$/US\$ exchange rate on announcement date of A\$1=US\$0.865). UMH is the world's fourth largest commercial malt producer and had 14 malt houses with around 1.05mt²⁰ of malting capacity. It was in the process of expanding capacity to up to 1.2mt by 2011. The transaction implies a multiple of US\$641 per kt of existing capacity and US\$565 per kt of expanded capacity. Its operations comprised Canada Malting Company, Great Western Malting, Bairds Malt and Barrett Burston Malting, which operate in Canada, the United States, the United Kingdom and Australia respectively. UMH's malthouses were located in, or with good access to, the world's primary barley growing and trading regions. The transaction provided both vertical and geographical diversification for GrainCorp. The multiples shown in the table have been calculated based on US dollar denominated acquisition price and earnings. These multiples are higher than announced by GrainCorp (EBITDA multiple of 5.7 times and EBIT multiple of 6.4 times) which were calculated on Australian dollar acquisition price (converted at US\$:A\$0.865) while earnings were based on US\$:A\$0.7472.

¹⁹ kt = kilotonnes.

²⁰ mt = million tonnes



Joe White Maltings Limited / AusBulk Limited

On 4 November 2002, AusBulk Limited (“AusBulk”) acquired 19.9% of Joe White Maltings Limited (“Joe White Maltings”) for \$3.30 per share from its majority shareholder (GPG (No. 3) Pty Ltd) and made a takeover offer for the remaining 80.1% at the same price. This transaction valued Joe White Maltings at A\$143.8 million. Joe White Maltings is the largest Australian maltster with 500kt of malting capacity. The transaction implies a multiple of A\$319 per kt of capacity.

Oilseeds and Vegetable Oils Processing

Tradewinds Malaysia Bhd / Consortium

On 24 December 2012, a consortium comprising Kelana Ventures Sdn. Bhd., Seaport Terminal (Johor) Sdn Bhd and other individual buyers made an offer to acquire the remaining 54.87% of Tradewinds Malaysia Bhd (“Tradewinds Malaysia”) from Tradewinds Corporation Bhd and other shareholders for MYR1.5 billion in cash. Tradewinds Malaysia derives around 41% of EBIT from palm plantations and processing and marketing of palm oil, 28% from rice procurement, processing and marketing, 28% from sugar refining and marketing and 3% from rubber plantations.

Westway Group, Inc. / EQT Infrastructure II Fund of EQT Partners AB

On 20 December 2012, EQT Infrastructure II Fund of EQT Partners AB signed an agreement to acquire the ordinary shares, convertible securities and warrants of Westway Group, Inc. (“Westway”) for approximately US\$421 million in cash. In a related transaction, Westway agreed to sell the liquid feed supplement business and certain non core bulk liquid storage terminals located in Ireland, Denmark, Korea, and the United Kingdom to an affiliate of ED&F Man Holdings Limited (“ED&F Man”) for US\$112 million. In the 12 months to 31 December 2011, bulk liquid storage contributed 62% of EBIT and liquid feed supplements contributed 38% of EBIT. The implied multiple for the transaction is a blended multiple and precedent transactions for bulk liquid terminals businesses (which are essentially infrastructure) are generally around 10 times EBITDA. This implies that the multiple for the liquid feeds supplements business would be lower than the overall transaction multiple.

Gardner Smith (Holdings) Pty Limited / GrainCorp Limited

On 28 August 2012, GrainCorp entered into an agreement to acquire privately owned Gardner Smith (Holdings) Pty Limited (“Gardner Smith Group”) for A\$302 million. Gardner Smith Group comprises Riverland Oilseeds, Pacific Terminals, Gardner Smith Marketing, Auscol (oil collection and recycling) and Stockfeeds businesses. Riverland Oilseeds is Australia’s second largest canola seed crusher with annual crushing capacity of more than 300kt. Pacific Terminals is an independent operator of bulk liquid port terminals in Australia and New Zealand. Historical earnings for Gardner Smith Group do not include approximately A\$2 million in EBITDA contribution from recent acquisitions. Including this contribution, the multiples implied by the transaction decrease to 8.6 times EBITDA and 15.6 times EBIT. The transaction multiple is a blended multiple as approximately 50% of earnings are generated by Pacific Terminals implying that the effective multiple for the processing business is more in the order of 8 times historical EBITDA (or 7.5 times if the earnings of the prior acquisitions are allowed for).

Integro Foods / GrainCorp Limited

On 28 August 2012, GrainCorp entered into an agreement to acquire Integro Foods from Goodman Fielder Limited for A\$170 million. At the same time, GrainCorp entered into a long term partnership with Goodman Fielder for the supply of oils and finished goods to Goodman Fielder. GrainCorp’s Integro Foods is the largest refiner and packager of edible fats and oils for food industry customers in Australia with 280kt of refining capacity producing around 230kt of oil. Financial information used to derive the implied multiple is adjusted for the impact of the Goodman Fielder supply agreements.

Elstar Oils S.A. / Archer Daniels Midland Company

On 13 August 2011, ADM made a tender offer to acquire Warsaw listed company Elstar Oils S.A. (“Elstar Oils”) for PLN265 million. Following a competitive offer from Bunge Limited, ADM increased its offer by 18% valuing Elstar Oils at PLN313 million. Elstar Oils is engaged in the manufacture and sale of refined vegetable oils and fats for the food industry and for biodiesel in Poland. It primarily processed canola seed. The



sale of oils for human or animal consumption comprised the majority of sales and operating profit. The historical multiples implied by the acquisition are high reflecting that EBITDA margins had decreased by almost 50% in the last two years (but expected to recover) and the competitive bidding process. Furthermore, the EBIT multiples also reflect high depreciation charges following a doubling of crushing capacity in recent years.

PPB Oil Palms Bhd / Wilmar International Limited

On 14 December 2006, Wilmar International Limited ("Wilmar") made an offer to acquire PPB Oil Palms Bhd ("PPB Oil") from PPB Group Bhd for MYR4.03 billion. PPB Oil's subsidiaries operated palm oil mills and cultivated and sold clonal plantlets. The relatively high multiples reflect the strategic advantage to Wilmar of integrating upstream into plantations, complementing its predominantly downstream operations (i.e. refining, biodiesel) and providing security of supply and protection against price rises. The relatively low forecast multiples reflect an expectation of strong earnings growth as a greater share of palms reach maturity.

Aarhus United A/S / BNS Industrier AB

On 23 June 2005, BNS Industrier AB made an offer to acquire Copenhagen Stock Exchange listed Aarhus United A/S ("Aarhus") for DKK2.0 billion. Aarhus operated in five segments: Specialty Fats, which are sold to the confectionary industry (45% of net margin (revenue less cost of goods sold and direct production) for the 12 months ended 31 December 2004), Bulk Oils (27%), Foodservice, which includes branded oils and bakery products (16%), Healthcare(2%) and Other Business Areas (10%). Its operations were primarily based in Europe (64% of 2004 sales), as well as North and South America (29%), the Far East, Australia and New Zealand (5%) and the Middle East (1%).

Cereol S.A. / Bunge Limited

On 21 July 2002, Bunge Limited ("Bunge") signed a definitive agreement to acquire a 54.69% interest in French listed Cereol S.A. ("Cereol") from Edison S.p.A for €449.2 million. Following competition regulation approval, Bunge proceeded to acquire the remaining shares at the same price by way of takeover offer. Cereol was engaged in the processing of oilseeds, principally soybeans, rapeseed, canola and sunflower seed. It manufactured, distributed and sold edible oils, protein meal and other food ingredients (e.g. proteins and lecithins). Cereol operated in three segments: Food Oils Europe (80% of operating profit for the 12 months to 31 December 2001); North American Processing (12%) and Specialty Products (8%). Cereol had recently made a number of divestments and acquisitions. Historical multiples have been calculated based on pro forma financial statements in which these divestments were assumed to have been made on 1 January 2001.

Other Agribusiness (Australia)

Sucrogen / Wilmar International Limited

On 5 July 2010 CSR Limited ("CSR") agreed to sell its Sucrogen business to Wilmar for A\$1.75 billion. Sucrogen was the largest raw sugar producer and refiner in Australia and the eighth largest producer globally. Sucrogen business activities included cane growing, sugar refining and ethanol.

Queensland Cotton Holdings Limited / Olam International Limited

On 6 March 2007, Olam International Limited made an offer to acquire Queensland Cotton Holdings Limited ("Queensland Cotton"). The consideration was revised upwards several times to reach A\$5.90 per share, or A\$166.5 million. Queensland Cotton was engaged in the purchase, processing, risk management, sale, classification, storage and transportation of processed cotton. It operated in three divisions, Ginning Services, Cotton Marketing and Other Services (distribution and sale of chemicals, fertilisers and planting seed, sale of pulse seed, warehousing services and provision of grower loans). In the year ended 28 February 2007, Cotton Marketing contributed 85% of profit before tax (before Other Services, which was loss making, and corporate expenses) and Ginning Services contributed the remaining 15%.

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CORPORATE DIRECTORY

Graincorp Limited

ABN 60 057 186 035

Registered Office

Level 26
175 Liverpool Street
Sydney NSW 2000

Website: www.graincorp.com.au
ASX company code: GNC

GrainCorp Shareholder Information Line

1300 883 034 (within Australia)
+61 1300 883 034 (outside Australia)

Directors

Don C Taylor

Chairman and Non-executive Director

Alison M Watkins

Managing Director and Chief Executive Officer

Barbara J Gibson

Non-executive Director

Donald G McGauchie

Non-executive Director

Peter J Housden

Non-executive Director

Daniel J Mangelsdorf

Non-executive Director

David B Trebeck

Non-executive Director

Simon L Tregoning

Non-executive Director

Company Secretaries

Andrew Horne and Betty Ivanoff

Share Registry

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000

Financial Advisers

Credit Suisse (Australia) Limited

Level 31, Gateway
1 Macquarie Place
Sydney NSW 2000

Greenhill & Co. Australia Pty Limited

Level 34, The Chifley Tower
2 Chifley Square
Sydney NSW 2000

Legal Adviser

Gilbert + Tobin

Level 37
2 Park Street
Sydney NSW 2000

