

ANNUAL GENERAL MEETING: CHAIRMAN'S ADDRESS



25 February 2014

Today we inevitably spend some time reflecting on the past year, and it has certainly been an eventful period since our last annual general meeting.

However, my objective today is mainly to focus on the future. We operate in a dynamic environment, full of challenges and opportunities. I want to outline the actions we are taking to address our new circumstances.

In particular, I want to reinforce a clear message: GrainCorp is getting on with business.

Company performance

It's pleasing to report that last year we delivered an improved safety performance, reflected in a 10.2% reduction in our lost time injury frequency rate. I'm also encouraged by the early improvement in lead safety indicators this year; although everyone at GrainCorp recognises that we still have a long way to travel in this crucial area.

Financially we recorded another strong result for 2013 and continued to deliver on our corporate objectives. The underlying net profit after tax of \$175 million reflected strong grain volumes; but it also highlighted the benefits of our diversification strategy, with strong contributions from our marketing and downstream processing businesses, including the new business, GrainCorp Oils.

The total dividend of \$0.45 cents per share reflects our objective to be a reliable dividend payer, by distributing approximately 40-60% of NPAT through the cycle.

We measure our overall performance against return on equity. We achieved a 10.1% return in 2013 and have averaged 12.5% over the last three years.

Proposed takeover by Archer Daniels Midland Company

Aside from the financials, the other major theme of the past year was the proposed takeover by Archer Daniels Midland Company.

As you know, after rejecting two earlier offers GrainCorp's board unanimously recommended a third offer from ADM, as we firmly believed this materially improved offer was in the best interests of our shareholders.

The rejection of the offer was obviously very disappointing; however, that decision is made and we cannot afford to dwell on it.

As I've spoken to our people around the company throughout this entire process, I have been deeply impressed by their unrelenting focus on delivering our strategy and the program of initiatives we outlined to improve underlying earnings by \$110 million.

Progress on strategic initiatives

The commitment by our people to the strategic initiatives is where we really demonstrate that we are getting on with business.

Two weeks ago we detailed a \$125 million investment to strengthen our edible oils manufacturing operations by consolidating our footprint closer to where our primary oilseeds are grown.

Last week we announced a significant capacity expansion for three of our bulk liquid port terminal facilities. There is strong confirmed customer demand for this extra capacity and several additional potential growth opportunities are emerging for that business.

These projects alone will deliver an ongoing benefit of approximately \$30 million incremental underlying earnings each year.

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There has been additional progress and uplift through the other initiatives and I'll outline these in further detail in the operating review later in the meeting.

Responding to our competitive environment

Notwithstanding our progress, we are clearly entering an environment with new challenges.

The drought conditions that have prevailed in northern NSW and Queensland had a big impact on growers and their crops – substantially reducing the volumes coming into our network. Coupled with an export program that is heavily skewed to the first months of this financial year, much of our country network will stand almost empty for the second half of our financial year.

We are also looking at increasingly intense competition – both up-country and at the ports.

Despite what you may have read or heard during the ADM transaction, I can assure you that our Storage & Logistics business is not a monopoly. In fact, the environment is fiercely competitive.

At port there are now four competing bulk export terminals - and up to 2.5 million tonnes of grain bypasses bulk facilities altogether and is exported in containers. Regulation of our ports continues to be a focus, while our ports are regulated by the ACCC, three of the competitor terminals are free of regulation, and the new competitor terminal in Newcastle loaded its first vessel last week unencumbered by any of the strict disclosure or capacity allocation constraints that apply to our terminal.

Up-country we have to fight hard for every single tonne of grain and the competitive pressures are growing significantly. We have a wide variety of competitors, many of them large multinational grain companies with financial backing and the strategic intention to compete aggressively.

There is now enough country storage capacity to hold the average east Australian crop two-and-a-half times over – and there is more storage being built all the time.

To compete effectively, we need to provide the highest levels of customer service, as well as competitive prices, to attract growers and grain into our network.

In order to be able to do this, the priorities of our grower customers are clear. They want:

- Their delivery to be processed as quickly as possible, so the truck can return to the farm for the next load; and
- An efficient rail link at the site, to keep supply chain costs down and to provide an attractive and competitive grain price at the silo.

As a business, we must move to meet this challenge and must also invest to improve our service.

Yet we must invest in a targeted and sustainable way. The vast majority of the grain we receive – over 90% – now comes into a core of about 65% of our sites. Growers are already clearly indicating which sites they prefer and this means there is a growing number of sites that receive less and less grain each harvest. Given their higher operating and supply chain cost these smaller silos are becoming less competitive.

We are currently assessing how we strengthen our network and free up capital to allow investment in the core sites that growers strongly support. This will involve some sites growing, some sites shifting focus, and some unviable sites closing. It's a process we are working through carefully, methodically and in close consultation with our customers. We are also working closely with Governments, as investment to improve the rail link between country and port remains critical to the competitiveness of our entire industry.

These challenges to our traditional business demonstrate of the importance of the carefully targeted diversification strategy the board has pursued.

The solid performances of GrainCorp Marketing, GrainCorp Malt, GrainCorp Oils and Allied Mills this year mean that they now make up almost 60% of our earnings. This proportion is up from 25% just four years ago and we expect it to grow further, to around a two-thirds contribution in a 'normal' year.

By reducing our reliance on the contribution of one single business unit, we place our business on a much more sustainable footing, provide access to capital for investment and enable far more reliable returns to you, our shareholders.

Underlying fundamentals remain strong

The board also remains very confident in the fundamentals that underpin the future growth of the business.

Of course, there are the macro forces of growing demand on our doorstep and in markets where we have a particular advantage.

In addition, looking back across the last 20 years, there is a remarkably strong story of sustainability coming from the Australian agriculture sector. We've seen yields increase and additional land being used for grain production, technological advancements and improvements in farm management techniques.

We see these trends continuing. Globally, the last fifteen years have seen increasing demand for grain, and production has increased to satisfy that demand, however there is no oversupply. For the last six years, ending stocks have been relatively consistent.

Overlay this with impact of the softening Australian dollar – which means Australian wheat futures are again ahead of the global benchmark, after spending some time falling behind – there are clear demand and price signals that will encourage Australian farmers to continue growing grain.

From GrainCorp's perspective this is encouraging. Both our Marketing and Storage & Logistics businesses are volume driven and we're well positioned with our processing businesses to capture additional value along the grain chain.

Leadership renewal

Finally, turning to leadership, as you know, we are in the process of looking for a new CEO. We are well down the pathway of this process, but it needs to be thorough and we will not be rushing an appointment.

I have given a commitment to the board that I will continue as Interim CEO until the appointment of a new CEO. I am hopeful that this process will be completed by mid-year.

In relation to the board, we are constantly reviewing the mix of skills and experience on our board. I believe after a year of considerable disruption and leadership change, including the appointment of a new CEO in the coming months, it is important to have some continuity and stability to manage this transition. Equally, it is important to refresh and bring new skills and perspectives to bear on our business. Over the next 12-18 months we are planning for the board to expand by two new Directors, which will then allow for two existing Directors to step aside in due course.

Ladies and gentlemen, thank you again for your support for our company. At our last meeting, at the conclusion of my remarks I said to you:

"We have the best people, a clearly focussed strategy and uniquely placed assets to continue to deliver solid returns to you, our shareholders, in the years ahead."

Nothing in the eventful period between then and now – nothing – has caused me to change this view.