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\$200 million investment in country grain storage network to deliver improved supply chain performance

GrainCorp is investing \$200 million over three years to enhance the efficiency of its country grain storage network under a new initiative known as “*Project Regeneration*”.

GrainCorp Executive Chairman Don Taylor said the investment reflects GrainCorp’s commitment to provide improved service to customers as international demand for grain increases.

“Project Regeneration represents the single largest capital investment in the country network in GrainCorp’s history. It will deliver a faster and more efficient rail capability for the benefit of growers and grain buyers,” Mr Taylor said.

Project Regeneration involves four work-streams:

1. Reshaping the country network;
2. Localised cluster operations;
3. End-to-end export logistics; and
4. Rail loading improvements.

Through Project Regeneration, GrainCorp is seeking to return up to 1 million tonnes of grain to rail, through reduced train cycle times and streamlined, more reliable operations.

“Rail freight performance has been in decline for some years. Slow loading and short sidings mean grain trains are shunted across multiple sites and cycled slowly, creating both cost and complexity. Furthermore poor track conditions limit wagon weights and track speed, adding to inefficiencies,” Mr Taylor said.

“We estimate rail costs in eastern Australia are \$10 per tonne higher than best practice, reducing returns to growers by around \$180 million¹ in an average season. GrainCorp’s investment will significantly improve our network’s interface with rail and help reduce rail costs by \$5 per tonne. However, the full benefits of our network investment – and the rest of the \$10 – can only be unlocked if there is also further investment by track owners in the government-owned rail infrastructure that supports the entire industry.

“Reduced rail costs are good for growers, as competition for grain will see buyers able to post higher bids for grain,” Mr Taylor said.

PROJECT REGENERATION

1. Reshaping the country network

The country network will consolidate to around 180 sites that already receive around 90% of all grain delivered to GrainCorp’s network. A long tail of smaller sites (72 last harvest) receives the residual 10% of grain.

Focusing on the core sites will enable GrainCorp to:

- Invest where it is most needed, in the sites where grower and buyer demand is greatest; and
- Improve service by concentrating equipment, labour and other resources.

¹ Based on \$10 per tonne across eastern Australia’s average grain production of 18 million tonnes

Strengthening the core sites will also be supported by the development of three new state-of-the-art country storage sites in Queensland and NSW.

The consolidated country network will have storage capacity of 20 million tonnes – enough to hold double GrainCorp's average intake.

2. Localised cluster operations

The country network will be configured into 34 clusters, each centred around 1 or 2 "Primary" sites, geared to maximising the amount of grain transported by rail. Primary sites will be export-focused, providing fast cycling point-to-point service for unit trains between country and port.

Several "Major" sites per cluster will service the domestic market by road, and run shorter shuttle rail services in NSW for both export and domestic. Many clusters will also have a number of special purpose "Flex" sites, which will provide additional capacity for specific segregations or customer requirements.

A new, leaner Country Operations structure will be aligned with the 34 clusters, enabling a closer focus on local operations and service.

It is anticipated there will be reduction of around 80 full time roles as a result of this restructure. GrainCorp will seek to redeploy affected people within the company where possible. Where this is not possible, assistance to find new employment will be provided. All affected people will receive their full entitlements.

3. End-to-end export logistics

To optimise rail and network efficiencies, export customers will be offered the ability to bundle elevation and transport of export grain under a service to be called *ExportDirect*.

Under ExportDirect, grain stock will be managed to ensure grain is optimally positioned and available for export or domestic outload.

The objectives of ExportDirect are:

- Maximising rail movements from the sites that have the most efficient rail capability. Primary sites have the capacity to service all export elevations through GrainCorp's ports, around 5 million tonnes in average year.
- Allowing the benefits of investment in the Primary sites to be transmitted throughout the network, by ensuring buyers can buy export or domestic grain at any GrainCorp site – but ensuring grain movements are managed from the most cost effective site.

4. Rail loading improvements

GrainCorp will invest in upgrades to rail loading capability at its 68 Primary sites. This will enable the company to provide a streamlined and dedicated rail service from these sites - using faster cycling, point-to-point 'long unit trains' (40+ wagons).

Rail capability upgrades at the Primary sites will accelerate loading speed (tripling the current average load rate). The upgrades will involve the installation or upgrade at most Primary sites of:

- Single load points with over-rail garner bins and weight optimisation;
- High speed elevators; and
- Rail pre-positioning bins with fumigation and blending capability.

In addition, around 40 Major sites in NSW will service point-to-point 'short unit' shuttle trains (around 20 wagons) to domestic customers and export shuttles to GrainCorp's four inland sub-terminals, where grain will be transhipped to long unit trains.

This upgraded capability will optimise rail operations for export and domestic customers - reducing rail cost, increasing rail capacity and improving reliability.

Supporting investment from track owners will be required to upgrade and extend rail sidings at approximately 40 Primary sites, to reduce the need to break and shunt trains. GrainCorp is working with governments in this regard.

ADDITIONAL INFORMATION

Project Regeneration will be funded from cash flow and debt facilities. There is an associated restructuring cost of \$4 million² which is expected to be reported as a significant item in GrainCorp's earnings, principally in FY14.

Changes to GrainCorp's country network and operating model will largely be in place prior to the harvest of this year's winter crop.

The capital works associated with improved rail capability and three new sites will be undertaken over the next three years, subject to planning approvals and co-investment by government in rail siding improvements.

Further details on Project Regeneration, including site maps and a list of sites under the new network configuration is available in a dedicated section of GrainCorp's website:

graincorp.com.au/regeneration

FOR FURTHER INFORMATION

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² After tax.