



Company announcement

GrainCorp Limited ABN 60 057 186 035

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To: The Manager
Announcements
Company announcements office

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PUBLIC ANNOUNCEMENT

Contents for immediate release:

Please find attached summary notes for the purpose of progressing discussions with investors on the key points from the GrainCorp half year results for the year ending 31 March 2008 and the Ridley transaction.

A handwritten signature in black ink, appearing to read "N. Hart".

Nigel Hart
Group Executive – Corporate Services and
Company Secretary

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The GrainCorp – Ridley Acquisition.

Key Points

1 GrainCorp growth opportunities.

The rapid increase in the global price of soft commodities, particularly cereal grains, has placed a renewed focus on the production, trading, storing, handling and shipping of bulk food commodities.

The FAO May 2008 Food Outlook¹ states, "...International prices of most agricultural commodities...are unlikely to return to the low price levels of previous years...due to a host of reasons, including the escalated cost of inputs. Moreover, a number of demand factors such as the need to replenish stocks and expected increases in utilization are keeping prices high despite a favourable global production outlook."

Removal of bulk wheat export monopoly.

The removal of the bulk wheat export monopoly will intensify competition for the purchase of wheat from growers and create opportunities for the delivery of an expanded range of grain accumulation, storage, handling and logistics products and services.

GrainCorp is responding to the new post wheat export monopoly market environment by expanding regional pools to accumulate and market grain. We are well placed to generate additional earnings by exporting wheat in bulk. We are targeting a market share of over 25% of East Coast wheat exports in the 2008/09 season.

To achieve our target, we will fund some wheat accumulation using working capital, operating within an acceptable return on capital target.

We will also provide integrated wheat accumulation, price risk management, blending, arbitrage and transport services for other bulk wheat exporters, with this wheat accumulation funded through their balance sheet(s).

For the 2008/09 harvest we are proposing to introduce an innovative grain marketing tool called *Warehouse Cashflow*, which will encourage growers to warehouse more grain in GrainCorp silos.

Port Terminals.

GrainCorp is undertaking a strategic review of port terminals. We will identify methods of diversifying earning streams which may include:

- Investigation of handling coal at Mackay.

¹ Food and Agriculture Organisation, Food Outlook May 2008. <http://www.fao.org/docrep/010/ai466e/ai466e00.htm>

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- Trialling the handling of minerals, in addition to magnesite, at Gladstone.
- Co-location of a barley malt house and ethanol plant at Pinkenba.
- Construction of a new container packing facility for grain in Brisbane.
- Possible construction of a new container packing facility for grain in Sydney.
- Expansion of woodchip export at Portland.
 - GrainCorp has increased woodchip exports by 50% in the past 2 years and is targeting a further 50% increase in exports over the next 3 years.
- Expansion of fertiliser handling at Geelong.
- Expansion of protein meal import handling at Fisherman Islands.

Transport and Logistics.

In May 2008, GrainCorp entered into a five year, eight train 'take or pay' contract with Pacific National. This contract underpins GrainCorp's country silo network in NSW and Victoria by providing a guaranteed 2.5 to 3 million tonnes of rail transport capacity.

Our contracted trains will be used to transport grain from silo to port terminal, and to tranship grain from silo to domestic customer.

This rail capacity will be managed by GrainCorp, allowing us to better coordinate the transhipment of grain across our storage and handling network.

Enhanced coordination of customer outturn orders and transport capacity will allow the development of 'least cost' supply chain solutions for domestic customers. It will also increase the efficiency of export grain movements.

Normalised EBITDA.

The above growth initiatives should generate in excess of \$25 million in underlying additional EBITDA.

GrainCorp's normalised EBITDA,² taking into account the growth initiatives detailed, will be around \$160 million.

2 Infrastructure Value.

The GrainCorp silo and port terminal infrastructure has a conservative estimated replacement value of:

- Port Terminals – over \$1.0 billion.
- Silos and upcountry grain accumulation sites – over \$1.0 billion.

Total infrastructure replacement value – over \$2.0 billion.

² At normalised, grain receipt is 10 million tonnes with a carry-in grain inventory of 3.5 million tonnes.

3 GrainCorp – Ridley Deal Rationale.

There is a natural fit between the geographic coverage of GrainCorp's 250 upcountry grain accumulation assets, and the 23 Ridley feed milling operations.

Key customers are shared by both businesses, creating opportunities for coordinating the supply of grains, compounded feeds and co-products.

This will generate pre tax synergies of over \$10 million pa for the merged GrainCorp – Ridley group through:

- Reducing corporate and shared services costs.
- Increasing throughput for GrainCorp's 250 operational upcountry silos will allow capture of additional storage, handling and trading revenue.
 - Up to 2 million tonnes of grain accumulated and handled for the combined Allied / Ridley business will underpin one fifth of GrainCorp's average 10 million tonnes pa grain receipt.
- Providing more efficient grain accumulation and coordination of other inputs, will allow us to create a 'least cost pathway' for the Ridley feed milling operations.

Earnings per GrainCorp share in the year ending 30 September 2010 for the merged group are expected to exceed the earnings per GrainCorp share on a standalone basis.

4 Business Integration and Improvement Experience.

Managing Director.

Mark Irwin has over 13 years experience in global operations, strategy, mergers and acquisitions and leadership roles in BHP Billiton and Standard Bank Plc.

- Re-engineering of bulk supply chains in the fertiliser and minerals sector, achieving savings in excess of US\$250 million.
- Successfully introducing 6 Sigma and business improvement programs.
- Acting as a leading participant in BHP's integration team for the acquisition of Western Mining Resources (WMC).
- Achieving \$20 million in cost savings at Southern Cross Fertilisers.

Mark's experience is directly transferable to the re-engineering of the Ridley supply chain and for driving efficiencies in the Cheetham Salt business.

GrainCorp Executive Team.

The existing GrainCorp senior management team has a proven track record in managing agribusiness integration and improvement, with existing skills in:

- Managing bulk grain logistics, rationalisation and management of regional infrastructure to reduce operating costs and improve asset utilisation.
- Implementing efficient procurement and integrated bulk supply chain services for Allied Mills, other domestic millers and processors of grain, and grain exporters.
- Removing in excess of \$15 million of costs from the storage and handling business since 2005.

GrainCorp has a successful history of integrating over \$400 million of 'natural fit' agribusinesses in the last eight years, **facilitating total cost savings and synergies of \$41 million.**

- In 2007 GrainCorp integrated Hunter Grain, Australia's largest importer and distributor of protein meals.
- The 2003 Grainco integration generated in excess of \$13 million in synergies in the first year of operation.
- The Allied Mills restructuring has, since 2002, facilitated \$20 million in cost reduction.
- The Vicgrain integration in 2000 generated \$8 million in synergies in the first year of operation.

5 Opportunities for the Merged Group.

The Ridley acquisition will transform GrainCorp into an agribusiness valued at over \$1 billion (market capitalisation).

The investor base of the merged group will become more diversified and attract new investment into the agribusiness sector. The merged group will attract additional analyst coverage and generate more interest from institutional investors.

The merged group will have enhanced liquidity, which should provide additional demand for GrainCorp shares. Capital raising potential will be increased, through both debt and equity markets, resulting in a lower cost of capital.

The merged group will be in a position to pay franking credits from the larger pool of Australian based earnings and GrainCorp's surplus franking credits of around \$25 million.

The Cheetham Salt business provides a stable 'drought proof' earnings base for the merged group. Earnings volatility will reduce as a result of diversification by GrainCorp into stock feed as:

- Stock feed consumption is increasing in the intensive livestock sector and the dairy sector, the latter based on increased exports.
- The stock feed business provides a counter cyclical income stream for the core GrainCorp storage and handling operations.
- This counter cyclical effect will increase imports of protein meals and grain, benefiting the port terminal and Hunter Grain operations.

GrainCorp will apply its experience in managing regional assets and supply chains to pursue other business improvement opportunities within Ridley.

The merged group will be in a more robust position to participate in further merger and acquisitions in the agribusiness sector.