



# Company announcement

GrainCorp Limited ABN 60 057 186 035

Date: 7 February 2008  
To: The Manager  
Announcements  
Company announcements office

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## PUBLIC ANNOUNCEMENT

Please find attached for immediate release the Chairman's address to the Annual General Meeting.

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

**Nigel Hart**  
**Company Secretary**

GrainCorp Limited  
Level 17, Tower 1, Darling Park 201 Sussex Street, Sydney NSW 2000  
PO Box A268, Sydney South NSW 1235  
Telephone: (02) 9325 9100 Facsimile: (02) 9325 9180  
[www.graincorp.com.au](http://www.graincorp.com.au)





27 February 2008

## **Chairman's address to the Annual General Meeting**

Ladies and Gentlemen,

Welcome and thank you for attending GrainCorp's 2008 Annual General Meeting.

Today is a significant day for the company with the vote on the Foundation Share. Indeed 2008 will be a significant year for the company: a new managing director, a return to good seasons, and new opportunities emerging following fundamental change in wheat marketing arrangements which are imminent and herald a new era of growth for GrainCorp.

These opportunities provide us with the platform to transform our business into a leading company in the global agribusiness sector.

Let me start by providing an overview of last year and then I'll talk more about the future direction of GrainCorp.

### **Financial Performance**

2007 was a challenging year for the company and for shareholders, with a severe drought reducing production across most cropping areas by at least 80%.

Consequently there was a significant reduction in the tonnes of grain we received into our network, 2.2 million compared to 10.8 million tonnes in the previous year, and the company reported a net loss of \$19.8 million.

In such circumstances it is difficult to pay dividends as we must responsibly manage the finances of the company, and therefore no final dividend was declared for the year. An interim dividend of 10 cents was paid in July.

The financial performance was in line with guidance; yet the significant year on year variation highlights the enormous impact of agricultural cycles on the business and why we

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continue to pursue opportunities which diversify income streams to provide counter cyclical earnings.

It is pleasing to report that the earnings of two core businesses, Grain Marketing and Allied Mills, were up on the previous year. In the case of Allied Mills, this is a strong result and well above target and the outlook for this business is solid.

Tom Keene will address the meeting shortly and talk more specifically about the performance and business activities of GrainCorp.

## **Forecasts**

We have announced a similar financial performance is expected for 2007/08 as occurred in 2006/07 and, given the volatility of current international grain markets, it is difficult to change this estimate at this time. Notwithstanding, we certainly continue our focus on costs and new opportunities.

In terms of a grain receival forecast, I am pleased to say rain across most of the cropping zone since December has buoyed the prospects for the 2008 season and allowed us to increase our receivals forecast to 4 to 5 million tonnes; still well short of what we consider a “normal” year, but a significant improvement on the 2.8 million tonnes in 2006/07. Of course, given the low receivals in 2006/07 our carry in stocks for 2007/08 were substantially less than previous year, which impacts significantly on our storage fee earnings.

The 2008 summer crop harvest, in Queensland and northern NSW, is progressing well with outstanding yields. The increasing sub-soil moisture levels across the Eastern Australian cropping zone auger well for the coming winter crop. There is no doubt Australian farmers are world class given that essential ingredient “water”.

The 2006/07 result, and the impact of drought in reducing the 2007/08 winter crop, highlights the inherent variability in agricultural production and directly flows through to companies such as GrainCorp. The company’s commitment to diversifying income, reducing earnings volatility and increasing asset utilisation are fundamental to our success and we have made some progress through mergers and acquisitions over the last seven years. However further diversification and scale is required if we are to mitigate against droughts to any significant extent. This was a key consideration in undertaking the \$60 million capital raising (which was completed in December 2007) to strengthen the balance sheet and enable the company to take advantage of future opportunities.

We started as a NSW-based grain handling authority, and have grown to a leading Australian agribusiness with investments from country silos, export ports through to primary processing, and strong trading in domestic and international markets. Just as our business has and will continue to evolve over time, it is now appropriate for shareholders to consider the evolution of the company’s structure. And as required by the Constitution, such a review will occur today with the vote on the Foundation Share.

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## Foundation Share

The Foundation Share was put in place fifteen years ago, in 1993, to provide growers with control and influence over the business in an environment where there was little choice in the marketplace. The share is held by the Grain Growers' Association and has certain rights including the appointment of the majority of directors and certain voting entitlements.

In 1993, the business environment and operating issues were significantly different compared to today. Domestic and export regulation existed on many crops, growers held the majority of shares in the company, and the level of competition for buying, selling and storing grain was low.

Today there are open contestable markets with choice and competition in grain storage and marketing. Growers now exert significant influence as customers – their power stems from their ability to choose who they will deal with and accordingly companies develop tailored products and services to meet the needs of their customers. It is also important to note all three listed Australian grain companies have, or are actively working towards, a simple, normalised structure as each believes this provides the best platform for maintaining customer service and providing avenues for growth.

It is the belief of the independent directors, including myself, that it is in the best interests of the company if the Foundation Share is not retained. This is based on independent expert's advice, the details of which have been provided to shareholders.

Simplifying the company structure is a significant decision for shareholders and will have a positive impact on the future of the company; I await the outcome with great anticipation.

## BUSINESS TRANSFORMATION

I said earlier our business must continue to grow and diversify our earning base; this is the challenge facing the board and management. We have made, and will continue to make, incremental operational improvements and invest to strengthen our core network. However, as the last two seasons have demonstrated, agribusiness companies need to reduce earnings volatility and this requires scale and diversification on a level which currently GrainCorp does not have, but needs to achieve.

We are fortunate to have secured Mark Irwin as the new Managing Director and Chief Executive Officer of GrainCorp, and Mark has a clear brief to build on the existing platform.

Mark is an outstanding executive with strong international business experience in mining and financial sectors. Most recently Mark was a director of mining and metals with Standard Bank London, and previously was the head of Southern Cross Fertilisers.

I would like to briefly talk about two major opportunities for our business

## **Wheat market reform**

The soft commodity boom and the tight global grain supply have driven grain prices to record levels. And given the change in seasonal conditions, GrainCorp expects to be able to capitalise fully on the opportunities in international bulk wheat marketing.

The last bastion of regulation – the single desk monopoly – will be reformed this year and much needed competition will then drive the market. The upside is significant for our business and I expect the benefits for GrainCorp will be immediate in terms of:

- new market growth;
- leveraging existing relationships to expand trade in wheat and other grains;
- the continued growth of container trade; and
- strengthening existing assets upcountry and at ports.

The level of interest from new and existing international customers has been high, and GrainCorp is intent on securing a significant share of the bulk wheat export market from the 2008/09 harvest.

I would like to take this opportunity to publicly applaud the Federal Government's commitment to remove the wheat export monopoly by 1 July 2008. This is an important reform of the wheat industry which will benefit growers and the Australian grains industry.

## **Rail freight market**

The recent decision by Asciano to withdraw from grain rail services has presented a significant challenge for not only GrainCorp but the industry as a whole.

With our network linked by rail to domestic and export customers, efficient logistics are essential.

The fact is the entire grain freight task, in a normal year, cannot physically be managed by road alone and in any event, rail is more cost effective, and environmentally sound, for bulk movements.

Yet there has been no significant investment by government in track and no specific policy underpinning the importance of grain rail freight.

It is a national disgrace that our country's rail network is still divided on a state by state basis, because of gauge differences, which prevents the efficient use of the rail assets.

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Today I call on the Federal Government and its recently established Infrastructure Australia council to make a commitment to the standardization of Australia's rail gauge within the next 10 years. This should be accompanied by setting aside budget allocations into a specific fund dedicated to that purpose. It can be done and must be done to keep Australia competitive in the international market place.

Negotiations are currently in progress with a number of rail operators on the scope and nature of future rail services, with a view to having new arrangements in place for 2008/09 harvest.

GrainCorp may contract trains and be a major player in a rail freight market. This will secure some rail services for the grain industry, and provide efficient logistics to GrainCorp ports. If it occurs, and this is by no means a certainty, this is an exciting development which builds on the success of the Victorian contract train which commenced in 2007 and expands GrainCorp's transport activities significantly.

The prospects increased yesterday with the announcement by the Victorian Premier to halve rail access fees for a two year period. This will assist domestic rail operations and make rail a more viable option for transporting bulk grain. The Government is to be congratulated for listening to industry and we will continue to work with the Government to secure a long term reduction in access fees and improved infrastructure.

Without significant Government investment I think we are likely to see a much smaller rail capacity and increased road usage which will influence grower behavior as they seek the lowest cost pathway for their grain. The state of the track remains a major concern, and unless there is significant investment in key lines from Government, the rail service, if it exists, will concentrate on main lines. We as a company are ready to invest in rail capacity at our sites, but will only do so where there is a commercial benefit and long term certainty for rail lines.

## **Conclusion**

Finally, on behalf of the board and shareholders, I would like to take this opportunity to publicly thank Tom Keene for his leadership and management of GrainCorp over the last 14 years. The business has evolved considerably from a corporatised NSW based organisation to a major Australian agribusiness, and is well positioned for the next phase of growth. It is a lasting legacy of which Tom can rightly be proud.

GrainCorp is a company with a strong asset base, an extensive regional presence and a strong supply chain from farm right through to end users in Australia and internationally.

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GrainCorp is capable of further growth both in Australian and international markets, and the Board looks forward to continuing growth of the business and securing its place as a global agribusiness company.

We are entering an exciting period and I look forward to the years ahead with confidence.

Thank you.

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