

Annual General Meeting

Chairman's address



GrainCorp
100 YEARS OF GROWTH

15 February 2018

Ladies and gentlemen and fellow GrainCorp Shareholders,

I am delighted to deliver my first report as Chairman at this Annual General Meeting, the 19th AGM of your Company since we became a listed company in 1998, and in the 102nd year since our original predecessor company was established.

It was a great honour to be invited by the Board to become Chairman of your Company last May. Since then I have had the pleasure of visiting many of our operational sites, meeting many of the men and woman who manage and operate them and meet a cross-section of the grain growers whom we serve around the country. I have visited key operations in Queensland, Victoria, the West Coast of the USA and country NSW, including participating in the opening of new grain supply infrastructure in Trangie, Nevertire and Gilgandra during a board visit to our Dubbo office. Along with the Board, I have also visited Eastern Europe to understand the challenges and opportunities posed by the Black Sea and the Baltic grain trade. These visits have brought home to me that our Company is a vital partner with our growers in providing efficient and indeed an essential access to markets for their hard-won produce. This gives GrainCorp a clear and important mission of national and local importance. It also impressed upon me the Company's strong commitment to providing a safe working environment for our people across our operations.

It is also very pleasing indeed to be able to report that in the year to 30 September 2017 GrainCorp achieved very good financial returns for investors resulting from the large Australian grain crop, continued good performance by our Malt business and a stellar grain trading result.

So, at the outset of my report on behalf of all shareholders, I would like to thank and congratulate our CEO, Mark Palmquist, and his executive colleagues and the 3,300 employees who make up our GrainCorp team across the world for their significant achievements in FY 2017.

I would also like to take this opportunity to acknowledge the achievements of my predecessor, Don Taylor, who chaired the Group for 11 years from 2005 and was a director for 13 years. I believe he can take pride in the successful growth and diversification of GrainCorp's business during his tenure.

Financial Results

GrainCorp's underlying earnings before interest, tax, depreciation and amortisation (EBITDA) for the year to 30 September 2017 were \$390 million (up 52 percent on the prior year), and our underlying net profit after tax (NPAT) was \$142 million, which was up from \$53.0 million in FY 2016. The Managing Director will provide further details on the performance of our business units in his report shortly. These very good results in part reflect the higher grain volumes moved through our logistics infrastructure after a good crop which followed three below average harvest years in Eastern Australia.

With these good results, we have strengthened our balance sheet and reduced our net debt as at 30 September 2017 to 37 percent which is below our target of 45 percent. We have adopted a disciplined approach to future capital management as many of our large capital projects were completed during the year. Our balance sheet was further strengthened by the sale of Allied Mills, a transaction that completed early in FY 2017, and the sale of our small but non-core German malt operations, unfortunately at a capital loss, in the second half of the financial year.

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Dividends

Last November the Board declared a final dividend of 15 cents bringing total dividends for FY 2017 to 30 cents per share, representing a payout ratio of 48 percent of underlying earnings, in line with our stated dividend policy of paying out 40 – 60 percent of Underlying NPAT on a through-the-cycle basis. It is the Board's ongoing aim to seek to maintain, so far as is sensible, a more stable dividend return to shareholders over time, including less variation between first and second half dividends, and this may require review of our current dividend policy in coming years. This aim is, we believe, appropriate because the diversification of GrainCorp's business over recent years has reduced (but not eliminated) the traditional harvest-driven volatility in our overall profit from year-to-year.

Strategic Priorities

During the past several years, GrainCorp has invested capital to improve the returns generated by our core businesses--grain handling and marketing, malt production and distribution, and edible oil processing--with the aim of achieving a greater level of consistency of returns from year-to-year through the harvest-cycle and a better rate of return on invested capital. To this end, a number of large projects were initiated over recent years, and many are now coming to fruition and yielding improved returns from our capital assets. Projects recently completed include the upgrade of the Oilseeds operations in Numurkah and the Foods manufacturing plant in West Footscray, the commissioning of our expanded Malt facility at Pocatello in Idaho and a large number of smaller but nevertheless important infrastructure enhancements across our grain supply chain operations in NSW, Victoria and Queensland. The expansion of our oilseed crushing facility at Numurkah is also due for completion at the end of this financial year.

Our major capital expenditure program is now coming to completion, and we expect needing lower capex to support our business in FY 2018 and, in the absence of new project initiatives in FY 2019.

Outlook

As we meet today, the 2017/18 East Coast Australian harvest was well down on the previous year and, in fact, was also well below the long-term average. This has required the Company to accelerate initiatives to capture further cost efficiencies across both our Grains and Oils businesses, and to take a further hard look at the priority previously ascribed to a number of ongoing capital projects. In what promises to be a challenged year for the industry in Eastern Australia, we will seek to optimise our supply chain, reduce costs and drive operational efficiencies. We aim to do this while at the same time continuing to improve the quality of service we provide to growers and to our customers. Improving customer service has been a very strong focus for the Company over the past couple of years. We believe we are making good progress towards this aim.

It is also a priority in the year ahead to manage our operations safely and to achieve the strongest possible value creation for our shareholders from our significant and, in many ways, privileged infrastructure assets, both in Australia and in other geographies.

Conclusion

In concluding my remarks, I would like to thank my colleagues on the Board for their support, and to thank them for their ongoing commitment to ensure that GrainCorp has the right strategy, the right people to deliver our strategy and the right governance to oversee the efficiency and integrity of all that we do.

It has been a great delight for me to visit many of our major facilities since joining the Board and to meet the people who operate them. I have experienced firsthand the commitment and, indeed, the passion our people have for providing an outstanding service to our growers and other customers. Many of our people have worked for the Company for a good part of their working lives and there is a special and tangible sense of pride and ownership amongst our employees that in my experience is unusual in its depth and breadth. This is indeed a company with strong values, and one that I am particularly proud to have an opportunity to serve.

Thank you.