

GrainCorp 2010 AGM Chairman's Address

The 2009 financial year was one that placed a number of major challenges in our path.

The global financial crisis touched every company in Australia in one form or another.

Traditional sources of funding changed and almost every commercial arrangement that involved funding came under more scrutiny than ever before.

A much harsher environment developed for companies with debt to equity ratios the market considered to be less than attractive.

In this new environment GrainCorp was among many companies criticised for being too heavily geared.

While we had the support of our bankers, had the company encountered another year of low grain production and low receival and export tonnages, our projections showed that the company may have had difficulty with the terms of the arrangements with our lenders.

In light of this criticism and the increased focus by the market on gearing levels, the GrainCorp Board decided that it was imperative we reduce our debt by raising capital.

This capital raising removed the negative perceptions in the market place about our gearing levels, and provided confidence that we were in a sound financial position.

The decision we made to reduce our gearing levels was clearly in the best long term interests of shareholders, both old and new.

Agriculture can be a difficult game, and elation can quickly turn into disappointment.

And the opposite is also true.

Leading into last spring, the season promised large harvest tonnages. Unfortunately the actual harvest was adversely affected by a very hot dry finish, and in Victoria, rain at harvest time.

Since Christmas there has been a very welcome change in the weather pattern.

Flooding rains have been received in many areas, with significant follow-up rain being received as recently as last week.

The rain received since Christmas has increased the prospects of good harvest tonnages from the sorghum crop in Queensland and northern NSW.

While there is a long way to go until the next winter harvest, stored moisture levels across most of our footprint indicate a promising start to the sowing period.

During 2009 grain production returned to long term average levels in many regions of eastern Australia, while in some other regions, in particular southern NSW and much of Victoria, drought continued to adversely affect the livelihood of many growers, and as a consequence, our business.

Overall, it was pleasing, after two successive years of losses of in the order of \$20 million per year, to be able to post a net profit after tax for the 2009 financial year of \$63 million.

This result allowed GrainCorp to pay a modest dividend of \$0.0727 per share in December last year, on the company's expanded capital base, the first dividend we have paid since July 2007.

A more detailed review of our FY 09 performance will be provided later.

I would like to explain our strategic direction.

In 2003, the GrainCorp board set a number of strategic priorities.

Of particular note was the need to reduce the volatility of our earnings through diversification of income streams.

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Our aim was to create a company with sustainable and improved returns for shareholders by extracting more value from each stage of the grain supply chain, remaining profitable even in drought years.

The decision to acquire United Malt Holdings was consistent with this strategy.

The Board is confident that this acquisition will deliver long term benefits to shareholders and will substantially fulfil our diversification strategy.

In Australia there are obvious benefits from a much closer association with Barrett Burston Malting.

We have had a 26 year relationship with Barrett Burston as a storage and handling service provider to the Geelong malt house which is located on land adjoining our Geelong export elevator.

The international operations we now own in Canada, the United Kingdom and the United States, open the possibility of developing a greater presence in the domestic grain markets in these regions.

We believe that, once fully integrated, the international operations provide GrainCorp with strategic advantages and business growth options, not only in those regions, but with our bulk grain export activities.

Since the acquisition, Bairds Malt in the United Kingdom has brought the new Arbroath – Scotland - malt house into production.

This new malt house is the first significant addition to malting capacity in Scotland for nearly 25 years and will allow Bairds to enhance the quality of malt being supplied to the exacting standards of its discerning customers.

I am please to be able to report that the construction of the new Barrett Burston malt house at Pinkenba in Brisbane is progressing on time and on budget.

This new malt house is located on land adjacent to GrainCorp's grain elevator and incorporates existing grain storage infrastructure, breathing new life into our Pinkenba operations.

Both the Arbroath and Pinkenba malt house developments are supported by long term supply agreements with major customers.

At our Investor Day held at the Geelong export elevator in early February, we advised those present that 96% of GrainCorp Malt's production for 2010 was sold.

At that time we also advised that 66% of the 2011 production capacity had been sold. Our forward malt sales are an indicator of the strong relationships we have with our customers.

You may be aware that the company announced yesterday that Jim Anderson had tendered his resignation from his position of CEO of GrainCorp Malt.

Jim is moving to a role outside the malt industry, but we have secured a consulting agreement with him, so we can continue to tap into his malt industry knowledge and experience.

Jim's departure will have no impact on the implementation of the malt business unit strategy we discussed at the recent investor day held in Geelong, and we do not anticipate any impact on our customer relationships following Jim's decision.

While I am discussing strategy, I want to explain the rationale behind our decision to withdraw from the merchandise sector.

The initiative to enter the merchandise sector was taken in 1996.

The rationale was to offer more than just grain receival, storage, handling and buying services at harvest.

We wanted to be able to have a full year relationship with growers that extended to farm inputs, including the supply of fertiliser, chemicals and general merchandise.

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The merchandise sector in eastern Australia is a hard one.

It's very competitive, and because of that competition, the return on capital employed is low.

As you will be aware from our FY 09 results, the merchandise business unit recorded a loss of over \$23 million, including write-downs of over \$11 million on the value of fertiliser and chemical inventory, and \$3 million write downs on other assets.

These losses were due to us getting our market position wrong when the price of fertiliser and chemicals were soaring.

We were left with too much stock at the wrong price when prices, particularly fertiliser, subsequently fell dramatically.

We also felt that the original rationale behind the diversification into merchandising was not working as effectively as we had anticipated.

Growers have a lot of loyalty to existing suppliers, and our merchandise network was not extensive enough to capture the majority of the farm input business from the majority of growers that deliver grain into our network.

I do want to sincerely thank all our merchandise staff for their hard work and dedication to customer service and their commitment to efficiently implement the withdrawal plan.

The decision to close the operation by the end of April was a difficult one, but not in any way linked to the amount of hard work our staff put in.

The judgement we made was that the benefits to the company as a whole were not sufficient to offset the financial risk inherent in the merchandise business, and this was demonstrated by the FY 09 result.

Having talked about the year that was, and our strategy, I want to address a matter that relates directly to an important part of the business at hand today, the 2009 remuneration report.

There will be a vote later in this meeting on adoption of the remuneration report for the financial year ended on the 30th September 2009.

The current Retention Share Plan was introduced in 2008 as a way of creating an incentive for our employees.

We discontinued the previous long term incentive scheme, as the model, which was very similar to that adopted by many non agribusiness sector companies, did not provide GrainCorp employees with consistent opportunities for market competitive remuneration.

The board is very aware that, in a competitive market for talented management, we need to have an incentive scheme that will attract talent, while also accounting for the volatility of the agribusiness sector.

Now that we have a new company structure, we will review our long term incentive policy, seek specialist advice.

We will also take note of the market, community and shareholder expectations to ensure that any changes that are recommended meet the need to attract and retain talent.

We must remember that the remuneration and financial reports that are the subject of today's AGM are for GrainCorp's year ending 30 September 2009.

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I now need to turn to the search for a new CEO.

It is likely that we will not have finalised this process for several more months.

It is important that we select the right individual to lead the management team through the task of integrating the malt business, ensuring that all business units generate their potential earnings, and maintaining the excellent relationships that exist with customers.

It will also be important for the new CEO to consolidate our core storage and handling business.

The removal of the bulk wheat export monopoly has changed in the way grain is being stored, handled and marketed.

Growers are using warehousing more extensively, some grain is being stored on-farm for longer periods, and the containerised grain export sector has remained robust since the removal of the single desk.

The changes in grower and market behaviour are presenting a new set of opportunities and challenges for our storage and handling network.

We are responding to the way the industry is evolving. The new GrainCorp CEO will have to meet these challenges and accelerate our responses to them.

In the interim, Ian Wilton is doing an outstanding job of leading the GrainCorp team.

With his steadying influence, financial expertise and knowledge of the international malt business, there is no lack of leadership at the top of the company.

Now I would like to turn to the short to medium term outlook for the grains industry.

Wheat production has increased dramatically over the past two years, with the two largest wheat crops on record causing a major imbalance in the supply and demand and carry stocks ratio.

There are now close to 200 million tonnes of wheat in storage around the world, and this is dampening the wheat price outlook.

Three years ago, the global wheat stocks to use ratio was close to a record low.

This, and speculation in the wheat futures market, contributed to skyrocketing wheat prices, that in turn prompted a surge in global wheat production, and thus the return to high stock levels we now have.

The slide in the value of wheat has been exacerbated in Australia by the significant appreciation of our dollar.

Many farmers in our operational footprint are holding grain on-farm in the hope of higher prices later in the year, especially for the feed grains.

World trade in grain continues to grow, driven by increasing population, higher living standards and the demand from the biofuels industry, but it is not growing at a rate that is able to absorb surplus production in a manner that would support prices.

An increase in the global grain trade is to Australia's advantage, as it opens opportunities for the expansion of our grain exports, a prospect that sits well with the placement and structure of our infrastructure assets.

Since my address to you last year, barely 3 months into our first season without the disrupting influence of the wheat export single desk, the Australian grain industry has evolved quickly into a more dynamic and competitive, and a more mature industry.

Despite predictions from those that supported retention of the single desk that the market would not function, growers, the trade, bulk handlers and wheat exporters have all adjusted quickly, with few serious teething problems.

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GrainCorp recently made a comprehensive submission to the Productivity Commission examination of the Commonwealth Government's reforms to wheat export regulation describing the workings of the market.

In this submission we advocated a continuation of the process of normalising the wheat market, and proposed removing all regulation by mid 2011.

What is needed across our eastern Australian network is a return to favourable seasonal conditions; this will allow farmers and their communities to rebuild their economic strength after the crippling drought years we have experienced.

Before I close, I would like to make comment on a matter that is very close to my heart.

GrainCorp is directly linked to farmers and farming communities.

Our business relies on them, as much as many farmers and communities rely on us and the services we provide.

Matters of certainty, such as land tenure, are important for the future of farmers and their communities, and thus for GrainCorp.

I believe Governments, Commonwealth and State, need to recognise that greater certainty over land tenure is needed, and that the increasingly onerous restrictions that are being placed on farmers and farming communities need to be lessened.

The confiscation of property rights, purportedly for the 'greater good' of the Australian community, without any compensation, is unjust and immoral, and must stop.

Contrary to some public commentary, our farm lands are well managed and in great shape to produce food for Australians and for export to those countries that are not as blessed with natural resources as we are.

The farming practice revolution in the grains industry over the past 25 years is a tribute to the skills and ingenuity of Australian farms.

The widespread adoption of technologies such as zero till and precision farming underpins the productivity improvements made by grain growers in recent years.

We, as a country, do not pay enough attention to the manner in which our farmers have become land managers and are able now to produce more food more consistently, and in an environmentally sustainable manner, than they ever have done before.

Unreasonably restricting farmers' ability to farm, in the pursuit of short term political headlines, is not the way to develop vibrant rural communities, export industries or even sustainable food production for Australians.

In closing, and focusing back on our company, I believe the initiatives we have undertaken during the past year have created a company that has a more reliable and stable base from which profits can be earned.

I believe GrainCorp now has the ability to pay a more consistent dividend stream to shareholders, and consequentially we will see an improved share price performance.

Thank you for your time. I would now like to proceed with the ordinary business for the meeting.