

# AGM: CHAIRMAN'S ADDRESS



18 December 2015

The past financial year provided a clear demonstration of the strength of GrainCorp's diversified and integrated business model. The company has faced a challenging operating environment, with a second consecutive below average crop and other macro forces such as lower fuel prices combining to reduce the global competitiveness of Australian grain. In this environment, eighty-six per cent of GrainCorp's earnings came from our more recently acquired processing businesses.

Despite the headwinds, we have reported an underlying NPAT of \$45m. Our ability to deliver this result reinforces the need for GrainCorp to continue to diversify its earnings base, keep strong cost control across the business and invest in strategic capital projects.

GrainCorp is today a much stronger company than it was five or six years ago. This means we have been able to deliver on our commitment to reliably pay a dividend of 40 to 60 per cent of NPAT through the cycle. This year, our declared dividends of 10 cents per share represents a payout ratio of 51 per cent for the year. This would not have been possible if our business profile was the same as it was five years ago facing the same operating environment.

On Monday this week we announced the expansion of our grain origination network in Canada in conjunction with our new joint venture partner Zen-Noh. To be entering into a joint venture with such a high quality partner such as Zen-Noh is a rare, and exciting opportunity. Mark will go through the project in more detail later in today's meeting however the board and management team are very excited about the opportunities this partnership provides.

GrainCorp's diversification has been deliberately focused on those commodities, regions and activities where our historic operations and expertise give us an advantage. Each of our different business units complements the others; and the close links between the businesses offer unique opportunities for GrainCorp to generate, extract and capture value. This latest announcement allows us to build on our existing international networks and be even more relevant to our customers across the Middle East, Northern Africa, Asia and other regions.

## **Strong progress on strategic projects**

As shareholders are aware, we are conducting an extensive investment program to improve the underlying performance of our business, diversify our cash flows, build even tighter integration and create more opportunities to generate value.

GrainCorp has made great progress on many of these projects which have been carefully planned and funded. We are committed to delivering all projects on time, and on budget. Mark will provide a full update on these projects in his address but I would like to note the progress on our country network upgrade – Project Regeneration.

As shareholders are aware, we made the decision to make a major investment in our country sites and the response from grain growers has been positive. The program has been very well supported, as demonstrated by our new site at Calleen, which received over 100,000 tonnes in the recent harvest.

Government support through investment in government-owned rail infrastructure is critical to the success of our upgrades. I'm pleased to report that we have had excellent support from the NSW Government and we are encouraged by our engagement with Victoria.

**GrainCorp Limited (ASX: GNC)**

Level 28, 175 Liverpool Street  
Sydney NSW 2000

PO Box A268  
Sydney South NSW 1235

T 02 9325 9100  
F 02 9325 9180

Unfortunately, progress has been far more difficult in Queensland, where our desired program of works has been delayed or placed on hold because there has been no satisfactory response from governments.

While we welcome the recent announcement of National Stronger Regions Fund funding of \$2.5 million for rail works at Cunnigar, NSW, we continue to see the opportunity for the Federal Government to play more of a leadership role in improving rail infrastructure for the benefit of Australian agriculture exports.

## **Safety**

Safety remains a priority across our global operations and I am pleased to see our continuing improvement in this area. During the 2015 financial year we saw a 46% reduction in lost time injury frequency rate which builds on the 34% reduction in the previous financial year. The team continue to introduce new initiatives including mental health awareness and healthy living. The management team has the board's full support in their commitment to *Zero Harm – Safe for life*.

## **Our people**

I want to take a moment to recognise the important role our people play in the success of GrainCorp.

GrainCorp employs over 3,500 people around the world and one of the things that continues to impress me is their commitment to the company and our customers. Whether they are on site with growers, in our offices or in our factories their attention to customer service, quality assurance and safety is outstanding. On behalf of the board I would like to thank our team members for their efforts over the last year.

I would also like to specifically thank our CEO Mark Palmquist and his executive team. We are now into the second year of Mark's leadership and I am delighted with the results Mark has already achieved and the progress made on strategic projects. Mark has assembled a world class executive team and I am excited to see what they can achieve this year.

## **Board Renewal**

As I stated in February last year, we are committed to renewing the board by bringing new skills and expertise to the board table. I am pleased to say that process is well underway.

I would like to extend a warm welcome to Peter Richards to GrainCorp's board. Shareholders will consider Peter's election later in today's order of business, however I acknowledge his broad experience and skills in international growth, M&A, and supply chain management across a range of relevant industry sectors.

I would also like to thank David Trebeck, who is retiring from the board today for his valuable contribution to GrainCorp over many years. David has been a passionate advocate for GrainCorp and Australian agriculture more broadly over his career and, David, we wish you every success in your future.

My own re-election as a non-executive director will be considered at this meeting today. I can advise shareholders that if I am re-elected, this will be my last term. As discussed with the board, over the next three years we will start a process for Chairman succession.

I thank my fellow directors for your hard work and commitment over the last year. The Board of GrainCorp is comprised of experienced directors that individually bring a wealth of knowledge and expertise in a range of relevant fields to guide our future.

## **Remuneration report**

Later in this meeting we will be discussing and voting on the remuneration report. While we are pleased our remuneration structure has the support of the majority of our shareholders, we were disappointed we were unable to garner the support of some proxy advisors.

Executive remuneration is a complex area, particularly in an agribusiness with the variability of the commodity cycle, weather and supply and demand.

The Board continually reviews our remuneration structure and makes changes to build alignment between management and shareholder interests. This includes this year's introduction of a gateway minimum performance threshold for the return on equity component of the long term incentives. However, we are concerned about recommendations based on an overly simplistic approach, which do not recognise the company's balanced approach to remuneration through the cycle. To respond to such an approach would not be in the best long term interests of you the shareholders.

## **Community**

GrainCorp remains a committed member of the hundreds of communities we operate in. In the past 12 months GrainCorp has injected over half a million dollars into grass-roots projects that deliver real value to our local communities.

I was especially impressed by the work of our Canadian Malting Company team in Saskatchewan, where we contributed to the construction of a wheelchair accessible playground in Watrous.

In Gladstone, Queensland our Port team held a working bee in their own time repairing damage to the local community buildings as a result of Cyclone Marcia.

We also renewed our partnership with the Clontarf Foundation which is doing incredible work to improve the education and employment prospects of hundreds of young aboriginal men in regional towns across our network.

## **Outlook**

Turning to the outlook, we expect another positive year for our processing businesses, although the grains businesses will again be impacted by the lower grain production of the recent harvest.

GrainCorp remains firmly committed to our strategy and look forward to the full benefits of our major development projects coming online. We remain confident that our business is strong and in a better position than ever to create value for our shareholders, while withstanding cyclical external factors over which we have little control.

Finally, I would like to thank you, our shareholders for your ongoing support. Your business is ideally positioned to grow and there continues to be great cause for optimism about the opportunities for Australian and international agriculture businesses.