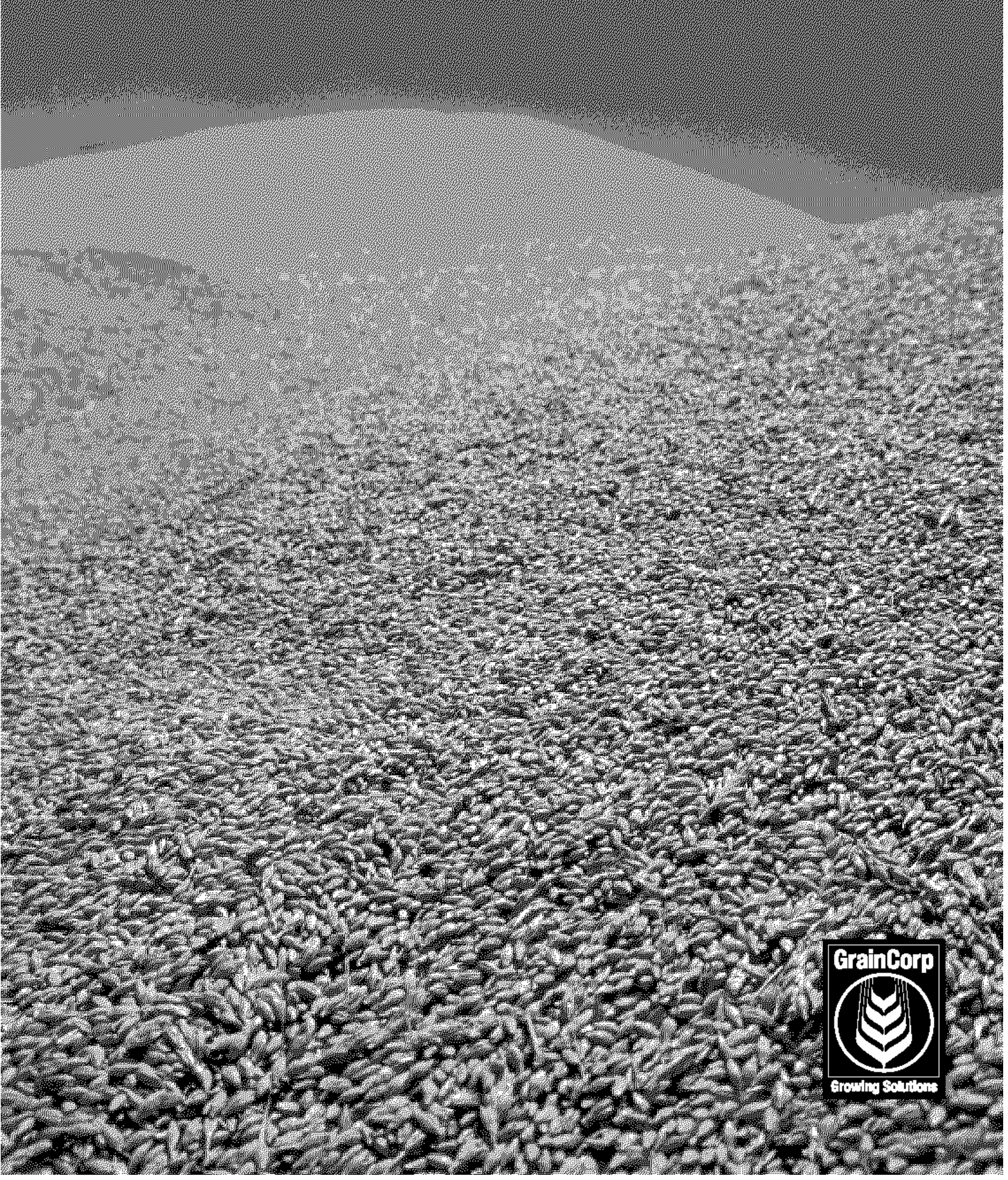
# 2003 FULL FINANCIAL REPORT

**GrainCorp Limited** (ABN 60 057 186 035) and Controlled Entities

For the year ended 30 September 2003



GrainCorp
Growing Solutions

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For the year ended 30 September 2003

# DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of GrainCorp Limited and the entities it controlled at the end of, or during, the year ended 30 September 2003.

## Directors

The following persons are Directors of GrainCorp Limited ('GrainCorp') at the date of this report:

R.L. Greentree (Chairman)

A.D. McCallum (Deputy Chairman)

T.B. Keene (Managing Director)

W.G. Barron

N. Burton Taylor AM

R.R. Flanery

R.G. Freeman

D. Groves

J.A. Menegazzo

D.C. Taylor

D.B. Trebeck

Mr D.G. McGauchie was a Director from the beginning of the financial year until his retirement on 31 July 2003. Mr D.C. Taylor was appointed as a Director on 1 October 2003.

## Principal Activities

The nature and scope of the main activities undertaken by the consolidated entity during the year were the provision of services primarily to the grain industry including:

- receival, handling and storage of grain and other bulk commodities as an agent for marketing organisations, end users and growers;
- marketing of grain and other bulk commodities and the operation of grain pools;
- road and rail transport services for bulk commodities;
- provision of farm input products;
- flour milling and mixing services.

## Review of Operations

The consolidated entity recorded a loss after tax of $18.2 million for the financial year compared with a profit after tax of $48.6 million for the previous year. EBITDA reduced from $125.6 million to $34.1 million. The principal reason for the loss was that grain receivals were significantly lower during the financial year as a consequence of the drought conditions in most of New South Wales and Victoria. Grain receivals during the year were 2.1 million tonnes (2002: 12 million tonnes) with export shipping of 1.2 million tonnes (2002: 6.8 million tonnes).

The effect of the drought on the result for the year was partially offset by the disposal of GrainCorp's investment in AWB Limited, an increase in contribution to profit from the Marketing division and the implementation of substantial cost management measures.

A more detailed review of the operations during the financial year and the results of those operations appear elsewhere in the Annual Report.

For the year ended 30 September 2003

## Significant Changes in State of Affairs

### Merger with Grainco Australia Limited

On 15 August 2003, Grainco Australia Limited ('Grainco') shareholders accepted an offer to merge with GrainCorp, passing all resolutions by a vote of over ninety-seven percent. Refer to the later section on subsequent events for more detail on the merger.

### Allied Mills

GrainCorp and Cargill Australia Ltd ('Cargill'), (a wholly-owned subsidiary of the international agribusiness company, Cargill Inc.), bought the milling and mixing business from Goodman Fielder Ltd on 4 October 2002 for approximately $200 million. The acquisition was a joint venture between GrainCorp and Cargill and the new company trades as Allied Mills Australia Pty Limited ('Allied Mills'). GrainCorp has a 60% ownership interest.

### Bulk Terminals Australia

On 1 November 2002, GrainCorp joined with Grainco to form a new joint venture company called Bulk Terminals Australia ('BTA') which operates their respective Newcastle and Brisbane terminals. BTA, in which GrainCorp and Grainco maintain an equal shareholding, operates GrainCorp's existing port facilities at Carrington and Kooragang Island in Newcastle and Grainco's facilities at Fisherman Islands and Pinkenba in Brisbane.

### Dividend Re-investment Plan

In November 2002, GrainCorp re-established its Dividend Re-investment Plan providing an opportunity for existing shareholders to increase their equity in the company. 694,618 Ordinary shares were issued for $9.19 each.

Other than the above, there were no significant changes in the consolidated entity's state of affairs during the year in review.

### Dividends

The following dividends have been paid or declared for payment to shareholders:

| Date | Rate (Cents) | Amount $'000 |
|---|---|---|
| Paid 6 January 2003 – final for 2002 | 44.0 | 17,671 |
| Interim for 2003 | – | – |
| Final for 2003 | – | – |

## Matters Subsequent to the End of the Financial Year

### Merger with Grainco Australia Limited

GrainCorp and Grainco merged on 1 October 2003 and the new combined entity will continue as GrainCorp Limited. The total cost of the merger was approximately $117.6 million. It included $105 million payable to Grainco shareholders (equivalent to $1.39 per Grainco Ordinary Share), $11.1 million payable to the ConAgra Trade Group ('ConAgra') for its 25% interest in MarketLink (Aust) Pty Ltd ('MarketLink') and $1.5 million in acquisition costs. The agreement gave Grainco shareholders a choice of cash and/or Reset Preference Shares ('RPS') in GrainCorp and provided them with the option of continuing as a shareholder in the merged entity. The merger required a change to the constitution of GrainCorp to allow for RPS to be issued and to create an additional Board position for a Queensland representative until the 2004 Annual General Meeting.

MarketLink was a joint venture between Grainco and ConAgra with Grainco holding 75% equity interest and ConAgra 25%. As part of the merger agreement, Grainco purchased the remaining 25% equity from ConAgra for approximately $11.1 million. This further purchase made MarketLink a wholly-owned subsidiary of Grainco. Therefore, GrainCorp became the ultimate holding company of MarketLink. Also, as a consequence of the merger, BTA will become wholly-owned by GrainCorp.

As part of the conditions of the merger, as agreed with the Australian Competition and Consumer Commission, GrainCorp has an undertaking to dispose of its interest in Australian Bulk Alliance Pty Ltd ('ABA') as soon as commercially possible.

### Reset Preference Shares

To fulfil the terms of the merger with Grainco, GrainCorp offered RPS at $100 each. The offer was structured in two parts: a priority offer to Grainco and GrainCorp shareholders and a subsequent offer to the public. GrainCorp set the maximum amount to be issued at $120 million which was over-subscribed. All priority and broker firm applications were satisfied in full, while applications made under the public offer were subject to a scale-back process. The RPS commenced trading on the ASX on a deferred settlement basis on 2 October 2003 and on a normal settlement basis on 8 October 2003.

RPS are non-cumulative preference shares quoted on the Australian Stock Exchange. Key features of RPS include:

- ***Preferred dividend:*** each RPS carries a preferred dividend fixed until 30 September 2006 at a rate of 6.5% pa which is expected to be fully franked;
- ***Reset mechanism:*** GrainCorp may reset certain terms of RPS on a Reset Date including the applicable dividend rate. The first Reset Date is 30 September 2006; and
- ***Conversion rights:*** in certain circumstances (including on a Reset Date) a holder of RPS may receive Ordinary shares in GrainCorp for their RPS at a discount of 2.5% to the relevant volume weighted average price of those Ordinary shares.

### Tax Consolidation

Tax consolidation legislation became substantively enacted during the year when the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures)* Bill 2002 was passed by the Senate.

At present, it is expected that there will be no material financial effect on the financial statements and at the date of this report, the Directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the legislation has not been recognised in this financial report in accordance with UIG 39 *Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances.*

### Other

Other than reported elsewhere in the Annual Report, no other matter or circumstance has arisen since 30 September 2003 which has significantly affected or may significantly affect:

(a) the consolidated entity's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the consolidated entity's state of affairs in future financial years.

For the year ended 30 September 2003

## Likely Developments

All information on future likely developments is contained elsewhere in the Annual Report. The Directors believe that additional information as to likely developments in the operations of the consolidated entity in future financial years, including the expected results of those operations, would likely result in unreasonable prejudice to the consolidated entity.

## Occupational Health and Safety

GrainCorp is committed to ensuring compliance with relevant occupational health and safety legislation. The Board requires a best practice approach in these areas, and has implemented appropriate management objectives and structures and a regular reporting process to ensure that this is achieved. GrainCorp's occupational health and safety policies are under continuous review and are updated when required. In general terms, GrainCorp's policies are designed to eliminate injury to people and to minimise loss or damage to product stored and handled on behalf of customers. Five prosecutions by WorkCover have been found against GrainCorp this year as a result of injuries sustained to employees and others in prior years.

In 2003, GrainCorp embarked on a new safety implementation strategy that encompasses all Strategic Business Units. In consultation with employees a more comprehensive Safety Management Program (SMP) was developed containing occupational health and safety standards that are suited to GrainCorp's operations. These standards clearly define the responsibilities and processes required to manage GrainCorp's occupational, health, safety and environmental objectives.

Through this program, the organisation has empowered all employees to identify and manage risk at the local level while maintaining a robust framework of rectification programs for identified safety issues. Every executive and senior manager has undertaken safety leadership training as part of this process. This has led to an increased focus on safety throughout GrainCorp and has ensured that safety is considered an integral part of all operational and planning processes.

## Environment

GrainCorp is committed to ensuring business practices are conducted in an environmentally responsible manner. Management of operations and assets are such that adverse environmental impacts are minimised. Notwithstanding compliance to environmental laws as a minimum standard, GrainCorp strives to ensure best practice principles are adopted in managing environmental issues. Strategies include, but are not limited to:

- developing and implementing sound environmental management systems to ensure legislative requirements are met;
- engaging independent specialists to assess current practice and assist in improvement strategies;
- developing and encouraging employee awareness and responsibility to environmental issues;
- monitoring performance of the consolidated entity in respect of environmental issues and adjust processes accordingly;
- introducing procedural guidelines to address task-specific environmental concerns.

An important part of the GrainCorp Environmental Management System (EMS) includes the recording of any incident that may have a potential environmental impact. During the financial year, no fines or penalties were imposed on any member of the consolidated entity under environmental regulation, and all required environmental licenses and permits are current.

## Information on Directors

**R.L. (Ron) Greentree**
*(Chairman)*
Grower from Mungindi, NSW. Principal of an agricultural machinery business and Chairman of BRI Australia Ltd. Chairman of the Remuneration and Nominations Committee and GrainCorp Foundation.

**A.D. (Allan) McCallum** *Dip.Ag.Sc., MAICD*
*(Deputy Chairman)*
Grower from Kerang, Victoria. Director of Incitec Pivot Limited, Chairman of Nugrain Pty Limited and President of Australian Oilseeds Federation. Member of the Remuneration and Nominations Committee.

**T.B. (Tom) Keene** *B.Ec., MAICD*
*(Managing Director)*
Managing Director of GrainCorp Group and member of the Risk Management Committee. Chairman of Allied Mills Australia Pty Limited.

**W.G. (Graham) Barron**
Grower from Ungarie, NSW. Chairman of the Risk Management Committee.

**N. (Nick) Burton Taylor** *AM B.Ec., ASIA, FCA, FAICD*
Grower from Boorowa, NSW. Chairman of The Australian Agricultural Company Limited, Director of Rural Press Limited and Bankstown Airport Limited. Chairman of the Audit Committee.

**R.R. (Ross) Flanery**
Grower from Harden, NSW. Member of the Remuneration and Nominations Committee.

**R.G. (Rick) Freeman**
Grower from Edgeroi, NSW. Company principal of Norseman Machinery Imports Pty Limited. Member of the Audit Committee. Director of GrainCorp Superannuation Pty Limited.

**D. (David) Groves** *B.Com., M.Com., CA*
Chartered Accountant and Company Director. Director of Equity Trustees Limited. Member of the Risk Management Committee.

**J.A. (Julian) Menegazzo** *B.Sc., MAICD*
Grower from Balliang, Victoria. Member of the Remuneration and Nominations Committee.

**D.C. (Don) Taylor** *B.Com, Grad.Cert.Rur.Sc., FAICD*
Chartered Accountant and Grower from Moonie, QLD.

**D.B. (David) Trebeck** *B.Sc.Agr. (Hons), M.Ec., MAICD*
Consultant, Grower and Company Director from Canberra, ACT. Executive Chairman of ACIL Tasman Pty Limited. Director of Incitec Pivot Limited and member of the Audit Committee.

For the year ended 30 September 2003

**The particulars of Directors' beneficial interests in shares as shown below are as at the date of this report.**

| Director | Ordinary Shares | Reset Preference Shares | Convertible Notes | Share Options |
|---|---|---|---|---|
| R.L. Greentree | 792,992 | – | – | – |
| A.D. McCallum | 126,615 | – | – | – |
| T.B. Keene | 231,141 | 600 | – | 250,000 |
| W.G. Barron | 155,231 | – | – | – |
| N. Burton Taylor | 1,520,038 | – | – | – |
| R.R. Flanery | 223,372 | 5,400 | – | – |
| R.G. Freeman | 136,192 | – | – | – |
| D. Groves | 1,644,891 | 10,000 | 792,049* | – |
| J.A. Menegazzo | 472,742 | – | – | – |
| D.C. Taylor | – | 333 | – | – |
| D.B. Trebeck | 14,004 | – | – | – |

* Held in Grainco Australia Limited, a wholly-owned subsidiary of GrainCorp since 1 October 2003.

As at the date of this report, Grain Growers Association 'GGA' owned 1 Foundation share and 8,648,024 Ordinary shares in GrainCorp Limited. Messrs Greentree, McCallum, Barron, Flanery and Freeman are Directors of GGA and members of GGA. Messrs Burton Taylor, Menegazzo and Trebeck are members of GGA and in that capacity have an interest in the above shares owned by GGA.

### Meetings of Directors

The following table sets out the number of meetings of GrainCorp's Directors (including meetings of committees of Directors) held during the twelve months to 30 September 2003, and the number of meetings attended by each Director.

| Director | Board Meetings | | Committee Meetings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Audit | | Remuneration | | Risk Mgt | | Other* | |
| | A | B | A | B | A | B | A | B | A | B |
| R.L. Greentree | 16 | 16 | – | – | 7 | 7 | – | – | 9 | 9 |
| A.D. McCallum | 16 | 16 | – | – | 1 | 1 | – | – | 6 | 6 |
| T.B. Keene | 16 | 16 | – | – | – | – | 4 | 4 | – | – |
| W.G. Barron | 16 | 15 | – | – | – | – | 4 | 4 | 1 | 1 |
| N. Burton Taylor | 16 | 16 | 4 | 4 | 7 | 7 | – | – | – | – |
| R.R. Flanery | 16 | 15 | – | – | 1 | 1 | – | – | 9 | 9 |
| R.G. Freeman | 16 | 15 | – | – | – | – | – | – | 4 | 4 |
| D. Groves | 16 | 15 | – | – | 7 | 7 | 4 | 4 | 8 | 8 |
| D.G. McGauchie *(Retired 31/7/03)* | 13 | 13 | – | – | 6 | 6 | – | – | 7 | 7 |
| J.A. Menegazzo | 16 | 16 | 3 | 3 | 1 | 1 | – | – | – | – |
| D.B. Trebeck | 16 | 15 | 4 | 4 | – | – | – | – | 5 | 5 |

* Capital Works, Equity, Occupational Health and Safety, and Environment Committees were discontinued in June 2003.

A - Number held during period in office

B - Number attended

## Emoluments of Board Members and Senior Executives

The criteria for reviewing the emoluments of the Managing Director and senior executive include achievement of individual performance objectives as defined by the internal Performance Management System, advice from external consultants on the prevailing market for equivalent positions, the company's overall performance and achievement of key strategic goals, increased and changed work loads, increased responsibilities and interaction of the incumbent with the Board and external parties.

The Remuneration Committee is responsible for ensuring the emoluments of senior executives reflect their responsibilities and performance. Further details are provided in the Corporate Governance Statement in the Annual Report.

Non-executive annual Directors' fees since 1 July 2003 were $50,000 per Director, $150,000 for the Chairman and $75,000 for the Deputy Chairman. With the exception of the Chairman and Deputy Chairman, additional yearly fees of $5,000 were paid to Directors who were members of committees other than the Audit Committee. The Chairman of these committees was paid $7,500. Yearly fees for the Audit Committee were $8,000 for members and $15,000 for the Chairman.

In addition to reimbursement of expenses, any allowance paid to Directors was in line with rates prescribed for members of the Senior Executive Service, Australian Public Service. Allowances were not included in the Directors' fees shown above.

Retiring non-executive Directors are entitled to an allowance up to a maximum of their last three years remuneration after nine years service (pro-rata for a lesser period with a minimum of three years).

Details of emoluments paid or payable to each Director of GrainCorp Limited and each of the five executive officers of the company and the consolidated entity receiving the highest emoluments in the financial year are set out in the following tables.

### Non-Executive Directors of GrainCorp Limited

| Director | Directors' Fees & Allowances $ | Superannuation Contributions $ | Sub-Total $ | Retirement Benefits Pertaining to 2002/03 $ | Total $ | Retirement Benefits Entitlement at 30/9/03 $ |
|---|---|---|---|---|---|---|
| R.L. Greentree | 121,127 | 10,325 | 131,452 | 142,120# | 273,572 | 336,809# |
| A.D. McCallum | 67,513 | 6,977 | 74,490 | 81,395 | 155,885 | 217,162 |
| W.G. Barron | 54,473 | 7,452 | 61,925 | 56,812 | 118,737 | 164,637 |
| N. Burton Taylor | 64,233 | 6,536 | 70,769 | 76,471 | 147,240 | 180,907 |
| R.R. Flanery | 53,946 | 13,425 | 67,371 | 61,808 | 129,179 | 173,849 |
| R.G. Freeman | 54,971 | 10,741 | 65,712 | 60,286 | 125,998 | 166,055 |
| D. Groves | 59,972 | 5,397 | 65,369 | 71,032 | 136,401 | 171,079 |
| D.G. McGauchie | 44,667 | 4,744 | 49,411 | 44,085* | 93,496 | – |
| J.A. Menegazzo | 57,570 | 5,880 | 63,450 | 69,502 | 132,952 | 69,502 |
| D.B. Trebeck | 57,143 | 5,143 | 62,286 | – | 62,286 | – |

* Retired 31/7/03 with benefit paid of $132,256.

# The Chairman has elected to waive his entitlement to any retirement benefits.

Note: Directors' fees include applicable committee fees.

For the year ended 30 September 2003

**Executive Director of GrainCorp Limited**

| Name | Salary $ | Bonus $ | Motor Vehicle $ | Superannuation $ | Sub-Total $ | Share Options $ | Total $ |
|---|---|---|---|---|---|---|---|
| T.B. Keene *Managing Director* | 420,301 | 109,148 | 50,758 | 37,891 | 618,098 | 289,583 | 907,681 |

**Other Executives of GrainCorp Limited**

| Name and Position | Salary $ | Bonus $ | Motor Vehicle $ | Superannuation $ | Sub-Total $ | Share Options $ | Total $ |
|---|---|---|---|---|---|---|---|
| J. Di Leo *Chief Operating Officer* | 296,772 | 48,510 | 24,590 | 12,136 | 382,008 | 89,000 | 471,008 |
| S.G.B. Bird *Chief Financial Officer* | 208,879 | 21,450 | - | 18,799 | 249,128 | 44,500 | 293,628 |
| A.N. Johns *Business Development Manager* | 177,036 | 24,975 | 16,657 | 14,135 | 232,803 | 44,500 | 277,303 |
| K.J. Lloyd *General Manager, Storage & Handling* | 168,594 | 17,739 | 14,109 | 27,744 | 228,186 | 44,500 | 272,686 |
| N.P. Hart *Corporate Services Manager & Company Secretary* | 158,778 | 20,475 | 23,007 | 10,995 | 213,255 | 44,500 | 257,755 |

Notes:

(1) Emoluments reported (except share options) are those paid or payable for the 12 months ended 30 September 2003. The amounts shown include fringe benefits tax where applicable.

(2) In accordance with ASIC guidelines share options have been ascribed a value at grant date (2nd May 2002) based on valuations provided by KPMG Actuaries. The valuation incorporates performance hurdles in its calculations.

(3) Given the recent drought conditions, the Directors are of the opinion that it is unlikely all share options hurdles will be met.

**Share Options**

No options have been granted during or since the end of the financial year to any Directors or the five most highly remunerated executive officers of the company and consolidated entity.

Unissued Ordinary shares of GrainCorp Limited under options at the date of this report are as follows:

| Option Plan | Number | Issue Price | Expiry Date |
|---|---|---|---|
| GrainCorp Executive Option Plan 2a | 250,000 | $ 8.85 | 30 September 2005 |
| GrainCorp Executive Option Plan 2b | 690,000 | $10.93 | 30 September 2005 |

In the above executive option plans, 50% of the options are subject to a total shareholder return (TSR) performance hurdle (Hurdle 1). The TSR performance comparison is calculated over the period from 1 October 2001 to 30 September 2004. The other 50% of options are subject to an earnings per share (EPS) performance hurdle (Hurdle 2). No option holder has any right under the options to participate in any other share issue of the company.

A total of 88,000 Ordinary shares of GrainCorp Limited were issued during the year ended 30 September 2003 on the exercise of options granted under the GrainCorp Executive Option Plan 1c. The amount paid on each of the shares was $6.25. No amounts are unpaid on any of the shares.

## Insurance of Officers

During the financial year, the consolidated entity has paid, or agreed to pay, premiums to insure persons who are, or have been, an officer of the company or a related entity, or any past, present or future Director or officer of the company, or any of its subsidiaries or related entities. The contracts prohibit disclosure of the amount of the premium paid.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity.

## Rounding of Amounts to Nearest Thousand Dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

## Auditor

PricewaterhouseCoopers continues in office in accordance with Section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the Directors.

Ronald Greentree

**R.L. Greentree** *Chairman*

Sydney
25 November 2003

As at 30 September 2003

Statements of
# FINANCIAL POSITION

| | Note | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Receivables | 7 | 41,020 | 95,949 | 44,065 | 44,485 |
| Inventories | 8 | 32,656 | 66,532 | – | – |
| Other | 9 | 8,384 | 7,991 | 288 | – |
| **Total Current Assets** | | 82,060 | 170,472 | 44,353 | 44,485 |
| **Non-Current Assets** | | | | | |
| Receivables | 10 | 49,554 | 83 | 47,280 | – |
| Investments accounted for using the equity method | 11 | 73,711 | 500 | 72,815 | – |
| Other financial assets | 12 | – | 25,195 | 162,360 | 162,359 |
| Property, plant & equipment | 13 | 383,903 | 416,402 | – | – |
| Deferred tax assets | 14 | 5,401 | 6,381 | 2,775 | 1,708 |
| Intangible assets | 15 | 11,351 | 8,047 | – | – |
| **Total Non-Current Assets** | | 523,920 | 456,608 | 285,230 | 164,067 |
| **Total Assets** | | 605,980 | 627,080 | 329,583 | 208,552 |
| **Current Liabilities** | | | | | |
| Payables | 16 | 28,133 | 29,469 | 2,283 | 857 |
| Interest bearing liabilities | 17 | 37,714 | 100,345 | 71,937 | 45,657 |
| Current tax liabilities | 18 | – | 5,274 | – | – |
| Provisions | 19 | 7,874 | 10,841 | 991 | 2,274 |
| **Total Current Liabilities** | | 73,721 | 145,929 | 75,211 | 48,788 |
| **Non-Current Liabilities** | | | | | |
| Interest bearing liabilities | 20 | 223,034 | 145,211 | 104,200 | – |
| Deferred tax liabilities | 21 | 11,607 | 15,884 | – | – |
| Provisions | 22 | 22,521 | 15,137 | 3,946 | 2,408 |
| **Total Non-Current Liabilities** | | 257,162 | 176,232 | 108,146 | 2,408 |
| **Total Liabilities** | | 330,883 | 322,161 | 183,357 | 51,196 |
| **Net Assets** | | 275,097 | 304,919 | 146,226 | 157,356 |
| **Equity** | | | | | |
| Parent entity interest: | | | | | |
| Contributed equity | 23 | 102,591 | 96,524 | 102,591 | 96,524 |
| Reserves | 24 | 18,430 | 18,430 | 13,510 | 13,510 |
| Retained profits | 24 | 154,076 | 189,965 | 30,125 | 47,322 |
| **Total Equity** | | 275,097 | 304,919 | 146,226 | 157,356 |
| Commitments for expenditure | 25 | | | | |
| Contingent liabilities | 27 | | | | |

The above statements of financial position should be read in conjunction with the attached notes.

For the year ended 30 September 2003

Statements of
# FINANCIAL PERFORMANCE

| | Note | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|---|
| Revenue from operating activities | | 463,326 | 688,284 | – | – |
| Other revenue (includes disposal of equity investments) | | 49,551 | 11,722 | 17,639 | 45,415 |
| **Total revenue from ordinary activities** | 2 | 512,877 | 700,006 | 17,639 | 45,415 |
| Goods purchased for resale | | (335,494) | (395,761) | – | – |
| Raw materials and consumables used | | (7,189) | (20,132) | – | – |
| Employee benefits expense | | (59,536) | (86,706) | (12,213) | (11,728) |
| Depreciation and amortisation expenses | | (41,998) | (41,091) | – | – |
| Borrowing costs expense | | (17,972) | (16,679) | (6,223) | – |
| Repairs and maintenance | | (7,247) | (13,459) | – | – |
| Cost of equity investment disposed | | (25,194) | – | – | – |
| Other expenses from ordinary activities | | (45,937) | (58,296) | (1,172) | (1,553) |
| **Expenses from ordinary activities** | | (540,567) | (632,124) | (19,608) | (13,281) |
| Shares of net profit/(loss) of associates accounted for using the equity method | | 1,783 | (90) | 1,895 | – |
| **Profit/(Loss) from ordinary activities before income tax expense** | 3 | (25,907) | 67,792 | (74) | 32,134 |
| Income tax benefit/(expense) | 4 | 7,689 | (19,189) | 548 | (640) |
| **Profit/(Loss) from ordinary activities after income tax expense** | | (18,218) | 48,603 | 474 | 31,494 |
| Outside equity interests in profit/(loss) from ordinary activities after income tax | | – | 93 | – | – |
| **Net Profit/(Loss) attributable to members of GrainCorp Limited** | | (18,218) | 48,696 | 474 | 31,494 |
| **Total changes in equity other than those resulting from transactions with owners** | | (18,218) | 48,696 | 474 | 31,494 |
| | | Cents | Cents | | |
| Basic earnings per share | 37 | (44.8) | 121.2 | | |
| Diluted earnings per share | 37 | (43.8) | 118.2 | | |

The above statements of financial performance should be read in conjunction with the attached notes.

# Statements of CASH FLOWS

| | Note | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | | |
| Receipts from customers (inclusive of goods & services tax) | | 601,280 | 727,417 | 16,216 | 21,188 |
| Payments to suppliers and employees (inclusive of goods & services tax) | | (503,695) | (630,314) | (13,719) | (14,108) |
| | | 97,585 | 97,103 | 2,497 | 7,080 |
| Interest received | | 3,347 | 238 | 2,819 | 19 |
| Borrowing costs | | (17,617) | (16,715) | (6,223) | – |
| Income taxes (paid)/refunded | | 6,474 | (18,299) | 231 | (782) |
| **Net Cash Inflow/(Outflow) from Operating Activities** | 34 | 89,789 | 62,327 | (676) | 6,317 |
| **Cash Flows from Investing Activities** | | | | | |
| Payments for property, plant and equipment | | (10,114) | (46,925) | – | – |
| Sale of investments/business | | 32,128 | – | – | – |
| Purchases of investments/business | | (71,429) | (50) | (70,920) | – |
| Dividends received | | 958 | 1,917 | – | – |
| Proceeds from sale of property, plant and equipment | | 2,937 | 1,760 | – | – |
| Loans repaid by related parties | | 1,200 | 1,577 | – | – |
| Cash decrease on deconsolidation of group entity | | – | 585 | – | – |
| Loans from/(to) related parties | | (49,057) | – | (38,078) | 26,940 |
| **Net Cash Inflow/(Outflow) from Investing Activities** | | (93,377) | (41,136) | (108,998) | 26,940 |
| **Cash Flows from Financing Activities** | | | | | |
| Proceeds from interest bearing liabilities | | 202,400 | 97,300 | 118,200 | – |
| Repayment of interest bearing liabilities | | (181,380) | (88,099) | (3,750) | – |
| Payments for shares bought back | | – | (3,421) | – | (3,421) |
| Proceeds from executive share options exercised | | 550 | 425 | 550 | 425 |
| Issue costs for Reset Preference Shares | | (868) | – | (868) | – |
| Share buy-back transaction costs | | – | (11) | – | (11) |
| Dividends paid | | (11,286) | (25,373) | (11,286) | (25,373) |
| **Net Cash Inflow/(Outflow) from Financing Activities** | | 9,416 | (19,179) | 102,846 | (28,380) |
| Net increase/(decrease) in cash held | | 5,828 | 2,012 | (6,828) | 4,877 |
| Cash at the beginning of the financial year | | (8,606) | (10,618) | (6,429) | (11,306) |
| **Cash at the End of the Financial Year** | 6 | (2,778) | (8,606) | (13,257) | (6,429) |

The above statements of cash flows should be read in conjunction with the accompanying notes. Refer to Note 36 for details on non cash financing activities.

For the year ended 30 September 2003

# Notes to the FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

The principal accounting policies adopted by GrainCorp Limited 'GrainCorp' and the consolidated entity (i.e. GrainCorp and its controlled entities GrainCorp Services Limited 'Services', GrainCorp Operations Limited 'Operations', GrainCorp Victoria Pty Limited 'Victoria', GrainCorp National Pty Limited 'National', GrainCorp Queensland Pty Limited 'Queensland', Victorian Grain Services Limited 'VGS', Vicgrain Limited 'Vicgrain', Vicgrain Assets Pty Limited 'Assets', Vicgrain Finance Pty Limited 'Finance') are stated to assist the general understanding of these statements.

Unless otherwise noted, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability. The accounts are drawn up on historical cost principles.

### New Accounting Standard

As a result of applying the new accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* for the first time, certain liabilities have been reclassified and some balances have been restated for the previous year.

### a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by GrainCorp as at 30 September 2003 and the results of all controlled entities for the year then ended. GrainCorp Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commenced. Where control of an entity ceases during a financial year its results are included for that part of the period during which control exists.

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates and joint ventures is recognised in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates and joint ventures are those entities over which the consolidated entity exercises significant influence, but not control.

### b) Cash

For the purpose of the statements of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

For the year ended 30 September 2003

**c) Investments**

Interests in listed and unlisted securities, other than controlled entities, associates and joint ventures in the consolidated financial statements, are brought to account at cost and the dividend income is recognised in the statement of financial performance when receivable. Investments in the controlled entities Services and VGS have been stated in the financial statements of GrainCorp at cost. Controlled entities, associates and joint ventures are accounted for in the consolidated financial statements as set out in Note 1(a).

**d) Non Current Assets Constructed by the Consolidated Entity**

The cost of non-current assets constructed by the consolidated entity includes the cost of all the materials used in construction, direct labour, borrowing costs incurred during construction and an appropriate proportion of fixed and variable overheads.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

**e) Property, Plant and Equipment and Leased Assets**

*(i) Property, Plant and Equipment*

Freehold land is not depreciated. Freehold buildings and structures are depreciated over their estimated useful lives on the straight-line method based on cost. Leasehold improvements are amortised over the term of each lease on a straight-line basis.

Plant and equipment is depreciated using the straight-line method over its estimated useful life, taking into account commercial and technical obsolescence as well as normal wear and tear.

Depreciation of property, plant and equipment is calculated either from the date of commissioning or the month following acquisition and depreciation is calculated up to and including the month of disposal.

Major depreciation periods are

- Freehold buildings - 20 to 50 years;
- Leasehold improvements - the lease term, and
- Plant and equipment - 3 to 75 years.

Profit or loss on sale of property, plant and equipment is brought to account in determining the results for the financial year.

*(ii) Leased Assets*

A distinction is made between finance leases and operating leases. A finance lease effectively transfers from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets. Finance leases are capitalised and a lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight-line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over 5 years.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Liabilities for surplus leased space under non-cancellable leases which are onerous contracts are recognised on the basis described in accounting policy note for onerous contracts.

**f) Intangible Assets**

*(i) Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight-line basis over 20 years which is the period benefits are expected to arise.

*(ii) Intellectual property*

Intellectual property is amortised over the period of their expected benefit.

**g) Recoverable Amount of Non-Current Assets**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the statement of financial performance in the reporting period in which the recoverable amount write-down occurs.

The expected net cash inflows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

**h) Repairs and Maintenance**

Repairs, minor renewals and improvements, and the purchase of minor items of tools and equipment are generally charged as expenses as incurred. Major renewals and improvements are capitalised and depreciated.

**i) Inventories**

*(i) Consumable Stores*

Consumable stores held for own consumption are valued at the lower of cost and net realisable value. Costs are assigned to individual items of stock mainly on the basis of weighted average costs.

*(ii) Trading Stock*

All trading stock is stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock mainly on the basis of weighted average costs. Cost comprises direct material and an appropriate portion of variable overhead.

**j) Employee Benefits and Workers' Compensation**

Employee entitlements are calculated in accordance with AASB 1028: *Accounting for Employee Entitlements.*

*(i) Wages and Salaries, Annual Leave and Sick Leave*

Liabilities for wages and salaries, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

For the year ended 30 September 2003

*(ii) Long Service Leave*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

*(iii) Superannuation*

Contributions to employee superannuation funds are charged as an expense as the contributions are paid or become payable.

*(iv) Workers' Compensation*

The provision in the financial statements for workers' compensation has been made on the basis of an independent actuarial assessment.

*(v) Ownership-based Remuneration*

Ownership-based remuneration is provided to employees via GrainCorp's employee share plans. Information regarding these plans is set out in Note 26.

**k) Borrowing Costs**

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are capitalised into the costs of qualifying assets.

Borrowing costs include:

(i) interest on bank overdrafts and short-term and long-term borrowings;

(ii) amortisation of discounts or premiums relating to borrowings;

(iii) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(iv) finance lease charges, and

(v) charges for commodity inventories funding arrangements.

**l) Income Tax**

The tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income or the future income tax benefit accounts at the rate which are expected to apply when those timing differences reverse.

**m) Research, Development and Marketing Costs**

Research, development, advertising and other marketing program costs are generally charged against income as incurred.

**n) Revenue Recognition**

Sales revenue represents revenue earned from the provision of services, including the handling, classification and storage of wheat and other grains and marketing of seed, grain and other products.

Sales revenues are recognised when the services are provided to the customer. Amounts billed in advance are recorded as a current liability until such time as the service is performed.

Other revenue includes, primarily, fee for management of pools, investment income earned on monetary investments and proceeds on sale of non-current assets.

**o) Insurance**

The controlled entity Operations is a self-insurer in New South Wales for workers' compensation liabilities. Operations carries insurance for claims in excess of $500,000 for any one incident. Operations, outside New South Wales, and GrainCorp in all states and territories, insure for workers compensation through the appropriate statutory funds.

Major property risks are insured at replacement value with an excess of $1 million for any one event. Appropriate policies for public liability, professional indemnity, motor vehicle third party property and other significant insurable risks are carried.

**p) Financial Instruments**

The consolidated entity enters into interest rate swap agreements, futures, forward and options contracts which are not recognised in the financial statements on inception. For interest rate swap agreements, the net amount receivable or payable is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest expense during the period and included in other debtors or other creditors at each reporting date. Financial instruments include futures, forward and options contracts which may incorporate physical deliveries. Any gain or loss is deferred and brought to account when realised.

**q) Foreign Currency Translation**

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

(ii) Specific Commitments

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred up to the date of the purchase or sale and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the statement of financial performance over the lives of the hedges. The net amounts receivable or payable under the hedging transaction are also recorded in the statement of financial position.

**r) Earnings per Share**

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding costs of servicing equity other than Ordinary shares, by the weighted average number of Ordinary shares outstanding during the financial year.

For the year ended 30 September 2003

(ii) Diluted Earnings per Share

Options granted under the GrainCorp executive option plan are considered to be potential Ordinary shares and have been included in the determination of diluted earnings per share.

**s) GrainCorp Operated Grain Pools**

The consolidated entity operates grain pools on behalf of growers, to provide them with an opportunity to enjoy better returns than those prevailing at the date of delivery. Separate financial accounts are maintained for the pools and no assets or liabilities belonging to the pools are included in the consolidated entity's financial statements.

GrainCorp receives a management fee for its services based on a percentage of the pools total revenue. The management fee for 80% of the expected total revenue is recognised over the life of the pool and the balance is recognised when the pool closes. The net payable/receivable balance with the pools is included in GrainCorp's statement of financial position.

At present, the Urgent Issues Group (UIG) and Australian Securities and Investment Commission (ASIC) are reviewing the area of pools management and a consensus is expected in the next financial year.

**t) Dividends**

Provision is only made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the half-year but not distributed at balance date.

The above policy was adopted with effect from 1 October 2002 to comply with AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* released in October 2001 and applied to the year ended 30 September 2003. In previous periods, in addition to providing for the amount of any dividends declared, determined or publicly recommended by the Directors on or before the end of the period but not distributed at balance date, provision was made for dividends to be paid out of retained profits at the end of the period where the dividend was proposed, recommended or declared between the end of the period and the completion of the financial report.

An adjustment of $17,632,016 was made against the consolidated retained profits at the beginning of the year to reverse the amount provided at 30 September 2002 for the proposed final dividend for the year ended on that date that was recommended by the Directors between the end of the financial year and the completion of the financial report. This reduced the consolidated current liabilities – provisions and total liabilities at the beginning of the year by $17,632,016 with corresponding increases in consolidated net assets, retained profits, total equity and the total dividends provided for or paid during the current interim period.

The restatements of consolidated retained profits, total dividends provided for or paid during the year and current provisions set out below show the information that would have been disclosed had the new accounting policy always been applied.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| **Restatement of retained profits** | | | | |
| Previously reported retained profits at the end of the previous financial year | 172,333 | 154,987 | 29,690 | 29,546 |
| Change in accounting policy for providing for dividends | 17,632 | 11,655 | 17,632 | 11,655 |
| Restated retained profits at the beginning of the period | 189,965 | 166,642 | 47,322 | 41,201 |
| Net profit/(loss) attributable to members of GrainCorp Limited | (18,218) | 48,696 | 474 | 31,494 |
| Total available for appropriation | 171,747 | 215,338 | 47,796 | 72,695 |
| Dividends paid | (17,671) | (25,373) | (17,671) | (25,373) |
| Restated retained profits at the end of the period | 154,076 | 189,965 | 30,125 | 47,322 |
| **Restatement of total dividends provided for or paid** | | | | |
| Previously reported total dividends provided for or paid during the period | – | (31,350) | – | (31,350) |
| Adjustment for change in accounting policy | (17,671) | 5,977 | (17,671) | 5,977 |
| Restated total dividends provided for or paid during the period | (17,671) | (25,373) | (17,671) | (25,373) |
| **Restatement of current liabilities provisions** | | | | |
| Previously reported carrying amount | – | (28,473) | – | (19,906) |
| Adjustment for change in accounting policy | – | 17,632 | – | 17,632 |
| **Restated carrying amount** | – | (10,841) | – | (2,274) |

**u) Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the (ASIC), relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases the nearest dollar.

## 2. Revenue

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| **Revenue from operating activities** | | | | |
| Sale of goods | 357,179 | 422,522 | – | – |
| Services | 106,147 | 265,762 | – | – |
| | 463,326 | 688,284 | – | – |
| **Other revenue** | | | | |
| Dividends | 958 | 1,917 | – | 30,000 |
| Interest | 3,347 | 238 | 2,819 | 19 |
| Sale of non-current assets | 35,171 | 1,760 | – | – |
| Rental income | 259 | 367 | – | – |
| Management fee income | 3,292 | 1,784 | 14,819 | 15,396 |
| Other income | 6,524 | 5,656 | 1 | – |
| | 49,551 | 11,722 | 17,639 | 45,415 |
| **Total revenue from ordinary activities** | 512,877 | 700,006 | 17,639 | 45,415 |

For the year ended 30 September 2003

## 3. Operating Profit

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit from ordinary activities before income tax expense includes the following specific net gains and expenses: | | | | |
| **Net Gains/(Losses)** | | | | |
| Gain on sale of investment in AWB Limited | 6,933 | – | – | – |
| Gain on sale of investment in controlled entity | – | 169 | – | – |
| Foreign exchange gain | 4,951 | 3,002 | – | – |
| Gain/(loss) on disposal of property, plant and equipment | 775 | (816) | – | – |
| **Expenses** | | | | |
| Borrowing costs | | | | |
| - Interest charges | 15,751 | 14,495 | 5,670 | – |
| - Other costs | 2,221 | 2,184 | 553 | – |
| Total borrowing costs | 17,972 | 16,679 | 6,223 | – |
| Depreciation | | | | |
| - Plant and equipment | 36,971 | 37,654 | – | – |
| - Buildings and improvements | 2,561 | 1,701 | – | – |
| Total depreciation | 39,532 | 39,355 | – | – |
| Amortisation – leased assets | 919 | 1,268 | – | – |
| Amortisation – intangible assets | 1,547 | 468 | – | – |
| Rental – operating leases | 2,183 | 1,290 | – | – |
| Other charges against assets | | | | |
| - Bad and doubtful debts | 784 | 1,200 | – | – |
| - Provision for loan recovery | 2,226 | – | – | – |
| Total other charges against assets | 3,010 | 1,200 | – | – |
| Other provisions | | | | |
| - Employee entitlements | 1,456 | 588 | 254 | 822 |
| - Provision for workers' compensation | (1,470) | 460 | – | – |
| Total other provisions | (14) | 1,048 | 254 | 822 |
| Research and development costs | 314 | 533 | – | – |

# 4. Income Tax

The income tax expense for the financial year differs from the amount calculated on the profit.
The differences are reconciled as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Operating profit/(loss) before income tax | (25,907) | 67,792 | (74) | 32,134 |
| Income tax calculated at 30% (2002 – 30%) | (7,772) | 20,338 | (22) | 9,640 |
| Tax effect of permanent differences: | | | | |
| Non deductible depreciation and amortisation | 1,796 | 2,519 | – | – |
| Additional allowable tax depreciation | (2,514) | (3,031) | – | – |
| Dividend received/receivable | (287) | (575) | – | (9,000) |
| Other | 195 | 7 | (526) | – |
| Share of net profit of associate | 707 | 13 | – | – |
| Income tax adjusted for permanent differences | (7,875) | 19,271 | (548) | 640 |
| (Over)/Under provision in previous year | 186 | (82) | – | – |
| Income tax expense/(benefit) attributable to operating profit | (7,689) | 19,189 | (548) | 640 |
| Income tax attributable to operating profit/(loss) comprises: | | | | |
| Current taxation provision | (1,744) | 20,600 | (407) | 1,188 |
| Deferred income tax provision | (3,992) | 958 | – | – |
| Future income tax benefit | (1,953) | (2,369) | (141) | (548) |
| Income tax expense/(benefit) attributable to operating profit | (7,689) | 19,189 | (548) | 640 |
| **Tax Losses** | | | | |
| The proportion of the future income tax benefit shown in note 14 attributable to tax losses is: | 3,948 | – | – | – |

This benefit for tax losses will only be obtained if:

1) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
2) the losses are transferred to an eligible entity in the consolidated entity, and
3) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
4) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

**Tax consolidation legislation**

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements of the tax consolidation system, is applicable to GrainCorp. At the date of this report, the Directors have not made a decision whether or not to elect to be taxed as a single entity.

The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the consolidated entity and the parent entity has been estimated on a reasonable basis. At present, estimates indicate that there will be no material financial effect on the financial statements and at the date of this report. The financial effect of the tax consolidation legislation on the consolidated entity has not been recognised in the financial statements.

# 5. Dividends

| | Parent Entity | |
|---|---|---|
| | 2003 | 2002 |
| | $'000 | $'000 |
| Ordinary shares: | | |
| Interim dividend paid, or declared before end of financial period * | | |
| 2002 - 34 cents and franked at 30% | – | 13,713 |
| 2003 - 0 cents | – | – |
| Final dividend paid, or declared before end of financial period * | | |
| 2001 - 29 cents and franked at 30% | – | 11,660 |
| 2002 - 44 cents and franked at 30% | 17,671 | – |
| 2003 - 0 cents | – | – |
| | 17,671 | 25,373 |

* Refer to Note 1 (t) for details of change in accounting policy.

The franked portion of dividends recommended after 30 September 2003 will be paid out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 September 2004.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Franking credits available for the subsequent financial year | 25,267 | 29,339 | 8,899 | 8,353 |

Note: The comparative for franking credits available for the subsequent financial year has been restated to reflect the changes that took place to the dividend imputation system effective from 1 July 2002, introduced by the *New Business Tax System (Imputation) Bill 2002.*

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:
(a) franking credits that will arise from the payment of income tax payable as at the end of the year;
(b) franking debits that will arise from the payment of dividends proposed as at the end of the financial year; and
(c) franking credits that may be prevented from being distributed in the subsequent financial year.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |

## 6. Cash (current)

| | | | | |
|---|---|---|---|---|
| Bank overdrafts (note 17) | (2,778) | (8,606) | (13,257) | (6,429) |

## 7. Receivables (current)

| | | | | |
|---|---|---|---|---|
| Trade debtors | 31,479 | 73,094 | – | – |
| Less: Provision for doubtful debts | (1,994) | (1,550) | – | – |
| | 29,485 | 71,544 | – | – |
| Other unsecured debtors | 9,248 | 8,391 | 1,464 | 1,885 |
| Margin deposits on commodity futures contracts | 1,131 | 14,302 | – | – |
| Advances to associated entities (note 32) | 1,156 | 1,712 | – | – |
| Related party debtors (note 32) | | | | |
| - Services | – | – | 42,601 | 42,600 |
| | 41,020 | 95,949 | 44,065 | 44,485 |

## 8. Inventories (current)

| | | | | |
|---|---|---|---|---|
| Consumable stores | 3,690 | 4,501 | – | – |
| Trading stock | 5,403 | 4,087 | – | – |
| Commodities inventory at net realisable value (secured by interest bearing liabilities – note 17) | 14,877 | – | – | – |
| Commodities inventory at cost (secured by interest bearing liabilities – note 17) | 8,686 | 57,944 | – | – |
| | 32,656 | 66,532 | – | – |

Commodities inventory balances (as above) and the associated interest bearing liabilities (note 17) have been brought to account during the financial year along with prior year comparatives. The facility for funding commodities inventory is provided by a financial institution, however, as GrainCorp bears the significant risks and rewards of this arrangement, the inventory and associated interest bearing liabilities have been included in the statement of financial position.

## 9. Other Assets (current)

| | | | | |
|---|---|---|---|---|
| Prepayments | 3,447 | 5,541 | 288 | – |
| Other assets | 4,937 | 2,450 | – | – |
| | 8,384 | 7,991 | 288 | – |

For the year ended 30 September 2003

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |

## 10. Receivables (non-current)

| | | | | |
|---|---|---|---|---|
| Loans to associate entities | 51,741 | – | 47,280 | – |
| Less: Provision for loan recovery | (2,246) | – | – | – |
| | 49,495 | – | – | – |
| Trade debtors | 59 | 83 | – | – |
| | 49,554 | 83 | 47,280 | – |

## 11. Investments Accounted for using the Equity Method (non-current)

| | | | | |
|---|---|---|---|---|
| Shares in associated companies (note 35) | 73,711 | 500 | 72,815 | – |
| | 73,711 | 500 | 72,815 | – |

**Shares in associates**

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

## 12.Other Financial Assets (non-current)

| | | | | |
|---|---|---|---|---|
| **Investments traded on organised markets** | | | | |
| Shares at cost (refer (a) below) | – | 25,195 | – | – |
| **Other (non-traded) investments** | | | | |
| Shares in controlled entities at cost (note 28) | – | – | 162,360 | 162,359 |
| | – | 25,195 | 162,360 | 162,359 |

(a) The market value at 30 September 2002 was $31.1 million.

For the year ended 30 September 2003

## 13. Property, Plant & Equipment (non-current)

| | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| **Land, Buildings and Improvements** | | | | |
| Freehold land, at cost | 16,408 | 16,277 | – | – |
| Freehold building and structures, at cost | 55,747 | 33,518 | – | – |
| Less: Provision for accumulated depreciation | (11,969) | (5,998) | – | – |
| | 43,778 | 27,520 | – | – |
| Leasehold improvements, at cost | 3,394 | 3,400 | – | – |
| Less: Provision for accumulated depreciation | (591) | (438) | – | – |
| | 2,803 | 2,962 | – | – |
| Total land, buildings and improvements | 62,989 | 46,759 | – | – |
| **Plant and Equipment** | | | | |
| Leased Plant and equipment | 2,989 | 6,945 | – | – |
| Less: Provision for accumulated depreciation | (1,203) | (3,063) | – | – |
| | 1,786 | 3,882 | | |
| Other plant and equipment, at cost | 504,479 | 512,212 | – | – |
| Less: Provision for accumulated depreciation | (189,474) | (162,086) | – | – |
| | 315,005 | 350,126 | – | – |
| Total Plant and equipment | 316,791 | 354,008 | – | – |
| **Capital works in progress, at cost** | 4,123 | 15,635 | – | – |
| | 383,903 | 416,402 | – | – |

As at 30 September 2003, the Directors' valuation of land and buildings was $83 million (includes $13 million for asset reclassifications from plant & equipment to land & buildings) compared to book values of $63 million. This view was based upon an independent valuation of those sites that encompass a significant proportion of the book value of land and buildings. The valuation was carried out in September 2001 using fair value as the basis and performed by members of the Australian Property Institute through Edward Rushton Australia Pty Ltd.

**Reconciliations**

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| | Land $'000 | Buildings & Structures $'000 | Leasehold Improvements $'000 | Leased Plant & Equipment $'000 | Plant & Equipment $'000 | Capital Works In Progress $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| Balance at 1 October 2002 | 16,277 | 27,520 | 2,962 | 3,882 | 350,126 | 15,635 | 416,402 |
| Reclassifications | – | 13,006 | – | (1,177) | (11,829) | – | – |
| Additions | 136 | 6,688 | – | – | 14,802 | (11,512) | 10,114 |
| Disposals | (5) | (1,032) | (2) | – | (1,123) | – | (2,162) |
| Depreciation/amortisation | – | (2,404) | (157) | (919) | (36,971) | – | (40,451) |
| Balance at 30 September 2003 | 16,408 | 43,778 | 2,803 | 1,786 | 315,005 | 4,123 | 383,903 |

The balance at 30 September 2003 for the parent entity is zero.

## 14. Deferred Tax Assets (non-current)

| | | | | |
|---|---|---|---|---|
| Future income tax benefit | 5,401 | 6,381 | 2,775 | 1,708 |

## 15. Intangible Assets (non-current)

| | | | | |
|---|---|---|---|---|
| Goodwill, at cost | 13,135 | 9,025 | – | – |
| Less: Accumulated amortisation | (1,784) | (978) | – | – |
| | 11,351 | 8,047 | – | – |

## 16. Payables (current)

| | | | | |
|---|---|---|---|---|
| Trade creditors | 23,474 | 27,308 | 1,797 | 64 |
| Other creditors | 3,715 | 793 | 486 | 793 |
| Income received in advance | 944 | 1,368 | – | – |
| | 28,133 | 29,469 | 2,283 | 857 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |

## 17. Interest Bearing Liabilities (current)

| | | | | |
|---|---|---|---|---|
| Bank overdraft | 2,778 | 8,606 | 13,257 | 6,429 |
| Bills payable | 10,250 | 33,200 | 10,250 | – |
| Loans (note 8) | 23,563 | 57,944 | – | – |
| Other loans | 400 | 400 | – | – |
| Leases | 723 | 195 | – | – |
| Other related parties (note 32) - Operations | – | – | 48,430 | 39,228 |
| | 37,714 | 100,345 | 71,937 | 45,657 |

Note: Leases are secured by the underlying assets; Loans are secured against related inventory; the remaining liabilities are all unsecured.

## 18. Tax Liabilities (current)

| | | | | |
|---|---|---|---|---|
| Provision for income tax | – | 5,274 | – | – |

## 19. Provisions (current)

| | | | | |
|---|---|---|---|---|
| Claims and disputes | 3,172 | 2,037 | – | – |
| Workers compensation | 700 | 1,030 | – | – |
| Employee entitlements | 4,002 | 7,774 | 991 | 2,274 |
| | 7,874 | 10,841* | 991 | 2,274* |

* Refer to Note 1 (t) for details of change in accounting policy.

**Movements in Provisions**

| **Consolidated – 2003** | Claims & Disputes | Workers' Compensation | Employee Entitlements | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Carrying amount at beginning of year | 2,037 | 1,030 | 7,774 | 10,841 |
| Additional provisions recognised/(released) | 1,135 | 20 | – | 1,155 |
| Payments made | – | (350) | (1,065) | (1,415) |
| Provisions transferred in/(out) through changes in group structure | – | – | (682) | (682) |
| Reclassification from current to non-current | – | – | (2,025) | (2,025) |
| Carrying amount at end of year | 3,172 | 700 | 4,002 | 7,874 |

**Movements in Provisions** continued

| **Parent entity – 2003** | Claims & Disputes | Workers' Compensation | Employee Entitlements | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Carrying amount at beginning of year | – | – | 2,274 | 2,274 |
| Additional provisions recognised/(released) | – | – | – | – |
| Payments made | – | – | (623) | (623) |
| Provisions transferred in/(out) through changes in group structure | – | – | – | – |
| Reclassification from current to non-current | – | – | (660) | (660) |
| Carrying amount at end of year | – | – | 991 | 991 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |

## 20. Interest Bearing Liabilities (non-current)

| | | | | |
|---|---|---|---|---|
| Bills payable | 221,800 | 142,900 | 104,200 | – |
| Other loans | – | 400 | – | – |
| Leases | 1,234 | 1,911 | – | – |
| | 223,034 | 145,211 | 104,200 | – |

Note: Apart from leases, which are secured by the underlying assets, the remaining liabilities are all unsecured.

## 21. Deferred Tax Liabilities (non-current)

| | | | | |
|---|---|---|---|---|
| Deferred income tax liability | 11,607 | 15,884 | – | – |

## 22. Provisions (non-current)

| | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| Restoration | 5,000 | – | – | – |
| Workers' compensation | 2,190 | 3,680 | – | – |
| Employee entitlements | 15,331 | 11,457 | 3,946 | 2,408 |
| | 22,521 | 15,137 | 3,946 | 2,408 |

**Movements in Provisions**

| Consolidated – 2003 | Restoration* $'000 | Workers' Compensation $'000 | Employee Entitlements $'000 | Total $'000 |
|---|---|---|---|---|
| Carrying amount at beginning of year | – | 3,680 | 11,457 | 15,137 |
| Additional provisions recognised/(released) | 5,000 | (1,490) | 2,550 | 6,060 |
| Payments made | – | – | – | – |
| Provisions transferred in/(out) through changes in group structure | – | – | (701) | (701) |
| Reclassification from current to non-current | – | – | 2,025 | 2,025 |
| Carrying amount at end of year | 5,000 | 2,190 | 15,331 | 22,521 |
| **Parent entity – 2003** | | | | |
| Carrying amount at beginning of year | – | – | 2,408 | 2,408 |
| Additional provisions recognised/(released) | – | – | 878 | 878 |
| Payments made | – | – | – | – |
| Provisions transferred in/(out) through changes in group structure | – | – | – | – |
| Reclassification from current to non-current | – | – | 660 | 660 |
| Carrying amount at end of year | – | – | 3,946 | 3,946 |

* This provision was made to satisfy requirements to remove redundant plant and equipment from one of the port facilities by 2005.

For the year ended 30 September 2003

## 23. Contributed Equity

| | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|
| Paid up capital | 102,591 | 96,524 |

Share Capital at 30 September 2003 and 30 September 2002 consisted of the following fully paid shares:

| | Number | Number |
|---|---|---|
| GGA Foundation share | 1 | 1 |
| Ordinary shares (previously Class A Ordinary) | 40,867,232 | 40,073,664 |

Movements in share capital of the company during the past two years was as follows:

| Date | Details | Total Number of Shares | $'000 |
|---|---|---|---|
| 30 September 2001 | Opening balance | 40,236,898 | 99,531 |
| 27 May 2002 | Share options exercised | 68,000 | 425 |
| June 2002 | Issued under employee share acquisition plan* | 60,200 | – |
| Various 2002 | Shares bought back on-market | (291,434) | (3,432) |
| 30 September 2002 | Sub-total | 40,073,664 | 96,524 |
| 26 November 2002 | Share options exercised | 24,000 | 150 |
| 3 December 2002 | Share options exercised | 64,000 | 400 |
| 6 January 2003 | Dividends reinvested | 694,618 | 6,385 |
| July 2003 | Issued under employee share acquisition plan* | 10,950 | – |
| September 2003 | Issue related costs – Reset Preference Shares | – | (868) |
| 30 September 2003 | Closing Balance | 40,867,232 | 102,591 |

* Refer to Note 26 for details of employee share acquisition plan.

**Share Options**

A total of 88,000 Ordinary shares of GrainCorp Limited were issued during the year ended 30 September 2003 on the exercise of options granted under the GrainCorp Executive Option Plan 1c. The amount paid on each of the shares was $6.25. No amounts are unpaid on any of the shares.

For the year ended 30 September 2003

## 24. Reserves & Retained Profits

| | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| Asset revaluation | 18,430 | 18,430 | 13,510 | 13,510 |

Note: During the financial year, there was no movement in the reserve.

**Nature and Purpose of Asset Revaluation Reserve**

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets as described at Note 1(g). The credit balance of the reserve may be used to satisfy the distribution of bonus shares to shareholders, and is only available for the payment of cash dividends in limited circumstances as permitted by law.

| **Retained Profits** | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| Retained profits at the beginning of the financial year | 189,965 | 166,642* | 47,322 | 41,201* |
| Net profit/(loss) attributable to members of GrainCorp Limited | (18,218) | 48,696 | 474 | 31,494 |
| Dividends provided for or paid | (17,671) | (25,373)* | (17,671) | (25,373)* |
| Closing balance | 154,076 | 189,965* | 30,125 | 47,322* |

* Refer to Note 1 (t) for details of change in accounting policy.

## 25. Expenditure Commitments

| | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| **Capital Expenditure Commitments** | | | | |
| Total capital expenditure contracted for at the reporting date but not provided for in payables: | | | | |
| – Not later than one year | 3,913 | 2,622 | – | – |
| – Later than one year but not later than five years | – | 696 | – | – |
| | 3,913 | 3,318 | – | – |
| **Lease Expenditure Commitments** | | | | |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities: | | | | |
| – Not later than one year | 4,759 | 2,941 | – | – |
| – Later than one year and not later than five years | 5,745 | 10,070 | – | – |
| – Later than five years | 31,342 | 33,181 | – | – |
| | 41,846 | 46,192 | – | – |
| **Representing:** | | | | |
| Cancellable operating leases | 29,020 | 25,588 | – | – |
| Non-cancellable operating leases | 12,826 | 20,604 | – | – |
| | 41,846 | 46,192 | – | – |
| **Operating Leases** | | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| – Not later than one year | 3,092 | 2,510 | – | – |
| – Later than one year but not later than five years | 2,280 | 8,347 | – | – |
| – Later than five years | 7,454 | 9,747 | – | – |
| | 12,826 | 20,604 | – | – |
| **Finance Leases** | | | | |
| Commitments in relation to finance leases are payable as follows: | | | | |
| – Not later than one year | 723 | 195 | – | – |
| – Later than one year but not later than five years | 1,234 | 1,911 | – | – |
| Total lease liabilities | 1,957 | 2,106 | – | – |
| Commodity Forward Contracts * | | | | |
| Commitments in relation to forward purchases # | 67,307 | 98,487 | – | – |
| Commitments in relation to forward sales | 98,905 | 107,796 | – | – |

* The consolidated entity hedges these transactions. Refer Note 38 (a).

# For some of these commitments the consolidated entity has an agency agreement with a counterparty for grain purchases.

# 26. Employee Benefits

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Aggregate liability for employee benefits, including on-costs, recognised and included in the financial statements is as follows: | | | | |
| **Provision for employee benefits:** | | | | |
| Current (note 19) | 4,002 | 7,774 | 991 | 2,274 |
| Non-current (note 22) | 15,331 | 11,457 | 3,946 | 2,408 |
| | 19,333 | 19,231 | 4,937 | 4,682 |
| **Employee Numbers** | | | | |
| Number of employees at balance date | 698 | 778 | 99 | 109 |

### Employee Share Plans

*Employee Share Acquisition Plan*

The company operates the shareholder approved GrainCorp Limited Employee Share Acquisition Plan (Plan). Under the Plan, shares in the company may be acquired by full time employees who have worked for the company or its wholly-owned entities for at least 12 months, and have performed satisfactorily in the period, as assessed by management. Shares are issued for nil consideration and must be approved by the Board. 10,950 shares have been issued to employees this financial year when market value was $10.20 per share for a total benefit of $111,690. The total number of shares acquired under the plan to date is 444,749 shares.

This Plan conforms with the guidelines of the Australian Investment Managers' Association and the Australian Shareholders Association which apply to companies listed on the ASX.

During the financial year GrainCorp implemented two new employee share plans as described below.

*Employee Exempt Share Plan*

This plan enables eligible employees (including the executive Director) to acquire shares as part of their remuneration. Shares will be held in the plan by the plan trustee for the benefit of participating employees and will be subject to the plan rules.

On the first acquisition date (expected to be in December 2003), the plan trustee will acquire as close as possible to (but no more than) $1,000 worth of shares (as calculated under the tax rules). Employees are eligible to participate in the plan if they are a permanent full or part time employee with 24 months of continuous service as at 1 May 2003 and if they are also a resident of Australia and pay tax in Australia.

No cash payment for the shares is required, however, the employee's future cash salary or wages will be reduced by $1,000 spread evenly over a one-year period. The number of shares will be calculated on the volume weighted average price which shares are traded in the week up to and including the date of acquisition, rounded down to the nearest whole share.

*Deferred Employee and Directors' Share Plans*

The deferred share plans operate with the same eligibility criteria for employees but has a minimum contribution requirement of $1,000 and a maximum of up to 50% of the employee's pre-tax base wage or salary. The plan trustee, CPU Share Plans Pty Ltd, acquires shares on the ASX each month, at the prevailing market price over a period of up to 5 days, commencing 23rd day of each month (or on the next business day) starting July 2003. The shares will then be allocated and held on trust under the terms and conditions of the plan. Contributions and eligibility criteria are different for Directors. At the balance date, 6,013 shares had been acquired under the plan.

For the year ended 30 September 2003

### Share Options

No options have been granted during or since the end of the financial year to any Directors or the five most highly remunerated executive officers of the company and consolidated entity.

Unissued Ordinary shares of GrainCorp Limited under option at the date of this report are as follows:

| Option Plan | Number | Issue Price | Expiry Date |
|---|---|---|---|
| GrainCorp Executive Option Plan 2a | 250,000 | $ 8.85 | 30 September 2005 |
| GrainCorp Executive Option Plan 2b | 690,000 | $10.93 | 30 September 2005 |

In the above executive option plans, 50% of the options are subject to a total shareholder return (TSR) performance hurdle (Hurdle 1). The TSR performance comparison is calculated over the period from 1 October 2001 to 30 September 2004. The other 50% of options are subject to an earnings per share (EPS) performance hurdle (Hurdle 2). No option holder has any right under the options to participate in another share issue of the company.

A total of 88,000 Ordinary shares of GrainCorp Limited were issued during the year ended 30 September 2003 on the exercise of options granted under the GrainCorp Executive Option Plan 1c. The amount paid on each of the shares was $6.25. No amounts are unpaid on any of the shares.

### Superannuation

The GrainCorp Superannuation Fund commenced on 1 October 1992 and all employee members are entitled, after serving a qualifying period, to benefits on retirement, disability or death. The Fund has been established on the "accumulation" principle. Employee members contribute to the Fund at various percentages of their wages and salaries.

The controlled entity contributes to the fund at rates ranging from the statutory superannuation guarantee rate of 9% to 20% of the employee's basic wage or salary. The entity's contributions are legally enforceable under statutory regulations.

The Fund is governed by a Trust Deed and administered by the Board of Directors of the Trustee which includes both employee and company nominated representatives.

For the year ended 30 September 2003

## 27. Contingent Liabilities

(i) The controlled entities Services, Operations, Victoria, National, Queensland, VGS, Vicgrain, Assets and Finance are parties to a deed of cross guarantee which has been lodged with and approved by the Australian Securities and Investments Commission. Under the deed of cross guarantee each of the above named companies guarantees the debts of the other named companies. No deficiencies of assets exist in any of these companies.

(ii) The controlled entity may from time to time receive notices of possible claims for losses or damages. A provision of $3,172,322 has been made to cover any liabilities which may arise out of such claims and the Directors believe no further provision is required.

(iii) As required by the self-insurance licensing requirements a Bank Guarantee in favour of the WorkCover Authority for at least $5,616,000 is in place.

(iv) In the normal course of business the consolidated entity enters into guarantees. The Directors do not believe any loss will arise in respect of these guarantees.

## 28. Investments in Controlled Entities

| Name of Entity | Place of Incorporation | Class of Shares | Equity Holdings 2003 | Equity Holdings 2002 |
|---|---|---|---|---|
| Entities controlled by GrainCorp Limited: | | | | |
| GrainCorp Services Limited | NSW | Ordinary | 100% | 100% |
| Victorian Grain Services Limited | VIC | Ordinary | 100% | 100% |
| Entities controlled by GrainCorp Services Limited: | | | | |
| GrainCorp Operations Limited | NSW | Ordinary | 100% | 100% |
| Entities controlled by Victorian Grain Services Limited: | | | | |
| Vicgrain Limited | VIC | Ordinary | 75% | 75% |
| Entities controlled by GrainCorp Operations Limited: | | | | |
| GrainCorp Victoria Pty Limited | NSW | Ordinary | 100% | 100% |
| GrainCorp National Pty Limited | NSW | Ordinary | 100% | 100% |
| GrainCorp Queensland Pty Limited | NSW | Ordinary | 100% | 100% |
| Entities controlled by Vicgrain Limited: | | | | |
| Vicgrain (Assets) Pty Limited | VIC | Ordinary | 100% | 100% |
| Vicgrain (Finance) Pty Limited | VIC | Ordinary | 100% | 100% |

Services, VGS and Vicgrain have been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

## 29. Remuneration of Directors

| | Directors of Entities in the Consolidated Entity 2003 $ | Directors of Entities in the Consolidated Entity 2002 $ | Directors of the Parent Entity 2003 $ | Directors of the Parent Entity 2002 $ |
|---|---|---|---|---|
| Income paid or payable, or otherwise made available, to Directors by entities in the consolidated entity and related parties in connection with the management of the affairs of the parent entity or its controlled entities | 2,283,427 | 1,376,009 | 2,283,427 | 1,376,009 |

Note: Includes retirement benefits and share options.

The number of Directors of the Parent Entity whose total remuneration from the Parent Entity or related parties falls within the following bands are as follows:

| $ | 2003 | 2002 |
|---|---|---|
| 30,000 - 39,999 | – | 1 |
| 50,000 - 59,999 | – | 3 |
| 60,000 - 69,999 | 1 | 4 |
| 90,000 - 99,999 | 1 | 1 |
| 110,000 - 119,999 | 1 | 1 |
| 120,000 - 129,999 | 2 | – |
| 130,000 - 139,999 | 2 | – |
| 140,000 - 149,999 | 1 | 1 |
| 150,000 - 159,999 | 1 | – |
| 270,000 - 279,999 | 1 | – |
| 560,000 - 569,999 | – | 1 |
| 900,000 - 909,999 | 1 | – |

Note: Includes retirement benefits and share options.

Current fees paid to Directors are set out in the Directors' Report.

## 30. Remuneration of Executives

| | Executives of Entities in the Consolidated Entity 2003 $ | Executives of Entities in the Consolidated Entity 2002 $ | Executives of the Parent Entity 2003 $ | Executives of the Parent Entity 2002 $ |
|---|---|---|---|---|
| Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by executive officers (including executive Directors) whose remuneration was at least $100,000: | | | | |
| Executive officers of the Parent Entity | 3,610,020 | 3,003,760 | 3,610,020 | 3,003,760 |

Note: Includes redundancy and retirement payments and share options.

For the year ended 30 September 2003

## 30. Remuneration of Executives (continued)

The numbers of executive officers (including executive Directors) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

| | Parent Entity | |
|---|---|---|
| $ | 2003 | 2002 |
| 130,000 - 139,999 | – | 1 |
| 140,000 - 149,999 | – | 2 |
| 160,000 - 169,999 | – | 2 |
| 180,000 - 189,999 | – | 3 |
| 190,000 - 199,999 | – | 2 |
| 200,000 - 209,999 | 1 | – |
| 220,000 - 229,999 | 2 | – |
| 230,000 - 239,999 | 1 | – |
| 240,000 - 249,999 | 1 | – |
| 250,000 - 259,999 | 1 | – |
| 270,000 - 279,999 | 2 | – |
| 290,000 - 299,999 | 1 | – |
| 350,000 - 359,999 | – | 1 |
| 380,000 - 389,999 | – | 1 |
| 470,000 - 479,999 | 1 | – |
| 560,000 - 569,999 | – | 1 |
| 900,000 - 909,999 | 1 | – |

Note: Includes redundancy and retirement payments and share options.

The consolidated entity had no executive officers who worked wholly or mainly outside Australia during the reporting period.
All executives are employed by the parent entity.

## 31. Remuneration of Auditors

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $ | $ | $ | $ |
| Remuneration for audit or review of the financial reports of the parent entity or any entity of the consolidated entity: | | | | |
| Audit or review of financial reports | 304,000 | 288,000 | 66,000 | 60,000 |
| Other assurance services | 36,261 | 50,350 | – | – |
| Total audit and other assurance services | 340,261 | 338,350 | 66,000 | 60,000 |
| Remuneration for other services: | | | | |
| – Due diligence fees (Grainco & Allied Mills) | 567,500 | 370,662 | – | – |
| – Taxation (Indirect) | – | 51,309 | – | – |
| – Risk Management & Consulting | 23,500 | 57,880 | – | – |
| Total remuneration | 931,261 | 818,201 | 66,000 | 60,000 |

Service provider appointments are subject to the consolidated entity's corporate governance procedures and auditor independence policies.

## 32. Related Party Transactions

**(i) Transactions with Directors**

The names of each person holding the office of Director during the year were:

R.L. Greentree (Chairman)
A.D. McCallum (Deputy Chairman)
T.B. Keene (Managing Director)
W.G. Barron
N. Burton Taylor AM
R.R. Flanery
R.G. Freeman
D. Groves
D.G. McGauchie (Retired 31/7/03)
J.A. Menegazzo
D.B. Trebeck

Aggregate number of Ordinary and Reset Preference Shares held by Directors, or their Director-related entities, in GrainCorp Limited were as follows:

| | 2003 Number of Ordinary shares | 2002 Number of Ordinary shares | 2003 Number of of RPS | 2003 Number of of RPS |
|---|---|---|---|---|
| Aggregate number of shares held at beginning of year | 5,553,991 | 5,543,640 | – | – |
| Shares purchased during year | 110,004 | 85,458 | 16,333 | – |
| Shares sold during year | (3,000) | (64,274) | – | – |
| Shares held prior to appointment | – | – | – | – |
| Shares held by Directors who retired during the year | (93,543) | (10,833) | – | – |
| Aggregate number of shares held at end of year | 5,567,452 | 5,553,991 | 16,333 | – |

As at 30 September 2003, GGA owned 1 Foundation share and 8,648,024 Ordinary shares in GrainCorp.

Messrs Greentree, McCallum, Barron, Flanery and Freeman are Directors of GGA at 30 September 2003 and are members of GGA. As at 30 September 2003, Messrs Burton Taylor, Menegazzo and Trebeck are members of GGA and in that capacity have an interest in the above shares owned by GGA.

Mr N. Burton Taylor is Chairman of the Country Education Foundation of Australia which is a beneficiary of the GrainCorp Foundation.

Remuneration of Directors is disclosed at Note 29.

For the year ended 30 September 2003

## 32. Related Party Transactions (continued)

| | Consolidated | |
|---|---|---|
| | 2003 | 2002 |
| | $ | $ |
| Other transactions in aggregate between Directors and the consolidated entity comprised: | | |
| Lease of storage and other facilities from Director on commercial terms | – | 91,800 |

In addition to the above, transactions for storage, handling, transport, testing, seed sales and purchase of grain, fertiliser and other agricultural products from Directors, or Director-related entities, took place during both financial years covered by this report and occurred within a normal customer relationship on terms no more favourable than those available on similar transactions to other customers.

Following are aggregate amounts due from and to Directors and their Director-related entities at balance date, all of which have been paid subsequent to the end of the financial year. These balances are the result of transactions conducted under normal trading terms and conditions.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $ | $ | $ | $ |
| Current receivables | | | | |
| – Directors | 21,563 | 212 | – | – |
| – Director-related entities | 1,335,797 | 4,231,025 | – | – |
| Current payables | | | | |
| – Directors | 3,184 | 6,377 | – | – |
| – Director-related entities | – | – | – | – |

Directors of the consolidated entity who transacted business with the consolidated entity were G. Barron, N. Burton Taylor, R. Flanery, R. Freeman, R. Greentree, D. McGauchie, J. Menegazzo, A. McCallum and D. Trebeck.

**(ii) Transactions between wholly-owned members of the consolidated entity**

The consolidated entity consists of GrainCorp and its controlled entities: Services, Operations, Victoria, National, Queensland, VGS, Vicgrain, Assets and Finance. Ownership interests in these controlled entities are set out in Note 28.

Transactions between GrainCorp and related parties in the consolidated entity during the years ended 30 September 2003 and 2002 consisted of:

(a) loans advanced within the consolidated entity;

(b) loans repaid within the consolidated entity;

(c) payment of dividends to GrainCorp;

(d) management fees for administrative services paid to GrainCorp;

(e) sale of goods; and

(f) reimbursement of expenses.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group were as follows:

| | Parent Entity | |
|---|---|---|
| | 2003 | 2002 |
| | $ | $ |
| Management fees for administrative services | 14,823 | 15,402 |
| Dividend revenue | – | 30,000 |

Aggregate amounts receivable from entities in the wholly-owned group at balance date were as follows:

| | Parent Entity | |
|---|---|---|
| | 2003 | 2002 |
| | $ | $ |
| Current receivables (note 7) | 42,601 | 42,600 |
| Current interest bearing liabilities (note 17) | 48,430 | 39,228 |

Transactions between the entities in the consolidated entity took place during both financial years covered by this report. These transactions occurred within a normal customer relationship on terms no more favourable than those available on similar transactions to other customers, except that there is no interest or fixed terms for repayment on intercompany loans within the consolidated entity, except for transactions with Vicgrain Finance Pty Limited.

## 32. Related Party Transactions (continued)

**(iii) Transactions with other related parties**

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| Aggregate amounts included in the determination of profit from ordinary activities before income tax: | | | | |
| Management fees for administrative services provided to GGA | – | 34 | – | – |
| Rental income from GGA | – | 24 | – | – |
| Rental charge from GGA | 28 | 33 | – | – |
| Management fees for administrative services provided to Sunprime | – | 143 | – | – |
| Licence fees received from Sunprime | – | 20 | – | – |
| Wheat supplied by Sunprime | 590 | 426 | – | – |
| Grading income from Sunprime | 20 | 75 | – | – |
| Storage, testing and seconds income from Sunprime | 18 | 25 | – | – |
| Training provided by Advance Trading | – | 28 | – | – |
| Consulting fees paid to Advance Trading | 186 | 104 | – | – |
| Rental income from Advance Trading | 8 | – | – | – |
| Rental and lease income from BTA | 7,297 | * | – | – |
| Management fees for administrative services provided to BTA | 434 | * | – | – |
| Transport and storage charges provided by BTA | 5,098 | * | – | – |
| Engineering services provided by Bulkeast | 172 | * | – | – |
| Rental income from Bulkeast | 12 | * | – | – |
| Freight income from Allied Mills | 783 | * | – | – |
| Rental charge from Allied Mills | 14 | * | – | – |
| Interest received from Allied Mills | 2,794 | * | – | – |
| Storage income from Allied Mills | 5,258 | * | – | – |
| Sales income from Allied Mills | 20,924 | * | – | – |
| Testing income from Nugrain | – | 1 | – | – |

* Entity became related party during the 2001/2002 financial year.

Aggregate amounts receivable from and payable to other related parties at balance sheet date were as follows:

| | | | | |
|---|---|---|---|---|
| Loan to Sunprime (note 7) | 125 | 125 | – | – |
| Loan to Nugrain (note 7) | 712 | 454 | – | – |
| Loan to BTA (notes 7 & 10) | 4,780 | * | – | – |
| Loan to Allied Mills (notes 7 & 10) | 47,280 | 1,133* | 47,280 | – |

* Entity became related party during the 2001/2002 financial year.

GrainCorp has a 33% interest in Sunprime, a 50% interest in Bulk Terminals Australia Ltd "BTA", a 25% interest in Nugrain Pty Limited "Nugrain" and a 60% holding in Allied Mills Australia Pty Limited "Allied Mills".

Transactions with the above related entities took place during both financial years covered by this report and occurred within a normal customer relationship on terms no more favourable than those available on similar transactions to other customers.

For the year ended 30 September 2003

## 33. Segment Information

| 2003 | Storage & Handling $'000 | Marketing $'000 | Other $'000 | Intersegment Eliminations $'000 | Consolidation $'000 |
|---|---|---|---|---|---|
| Sales to customers outside consolidated entity | 102,327 | 310,977 | 50,022 | – | 463,326 |
| Intersegment sales | – | 5,581 | – | (5,581) | – |
| Total sales revenue | 102,327 | 316,558 | 50,022 | (5,581) | 463,326 |
| Share of net profit/(loss) of associates | | | | | 1,783 |
| Other revenue | 3,196 | 3,291 | – | – | 6,487 |
| Unallocated revenue | | | | | 43,064 |
| Total segment revenue | 105,523 | 319,849 | 50,022 | (5,581) | 514,660 |
| Segment result | (8,058) | 13,140 | (4,794) | – | 288 |
| Unallocated revenue less unallocated expenses | | | | | (26,195) |
| Profit/(loss) from ordinary activities before income tax | | | | | (25,907) |
| Income tax benefit/(expense) | | | | | 7,689 |
| Profit/(loss) from ordinary activities after income tax | | | | | (18,218) |
| Segment assets | 372,806 | 48,699 | 19,748 | – | 441,253 |
| Unallocated assets | | | | | 164,727 |
| Total assets | 372,806 | 48,699 | 19,748 | – | 605,980 |
| Segment liabilities | 25,505 | 36,420 | 9,511 | – | 71,436 |
| Unallocated liabilities | | | | | 259,447 |
| Total liabilities | 25,505 | 36,420 | 9,511 | – | 330,883 |
| Investments in associates | – | – | – | – | – |
| Unallocated investments in associates | | | | | 73,711 |
| Total investments in associates | – | – | – | – | 73,711 |
| Acquisitions of property, plant and equipment and other non-current segment assets | 10,114 | – | – | – | 10,114 |
| Depreciation and amortisation expense | 41,995 | 3 | – | – | 41,998 |

For the year ended 30 September 2003

## 33. Segment Information (continued)

| 2002 | Storage & Handling $'000 | Marketing $'000 | Other $'000 | Intersegment Eliminations $'000 | Consolidation $'000 |
|---|---|---|---|---|---|
| Sales to customers outside consolidated entity | 263,011 | 379,977 | 45,296 | – | 688,284 |
| Intersegment sales | 14,397 | 1,144 | 484 | (16,025) | – |
| Total sales revenue | 277,408 | 381,121 | 45,780 | (16,025) | 688,284 |
| Share of net profit/(loss) of associates | | | | | (90) |
| Other revenue | 2,229 | 1,784 | – | – | 4,013 |
| Unallocated revenue | | | | | 7,709 |
| Total segment revenue | 279,637 | 382,905 | 45,780 | (16,025) | 699,916 |
| Segment result | 99,192 | 5,724 | (1,384) | – | 103,532 |
| Unallocated revenue less unallocated expenses | | | | | (35,740) |
| Profit/(loss) from ordinary activities before income tax | | | | | 67,792 |
| Income tax benefit/(expense) | | | | | (19,189) |
| Profit/(loss) from ordinary activities after income tax | | | | | 48,603 |
| Segment assets | 419,594 | 106,607 | 25,708 | – | 551,909 |
| Unallocated assets | | | | | 75,171 |
| Total assets | 419,594 | 106,607 | 25,708 | – | 627,080 |
| Segment liabilities | 22,211 | 73,008 | 6,484 | – | 101,703 |
| Unallocated liabilities | | | | | 220,458 |
| Total liabilities | 22,211 | 73,008 | 6,484 | – | 322,161 |
| Investments in associates | – | – | – | – | – |
| Unallocated investments in associates | | | | | 500 |
| Total investments in associates | – | – | – | – | 500 |
| Acquisitions of property, plant and equipment and other non-current segment assets | 46,855 | – | 70 | – | 46,925 |
| Depreciation and amortisation expense | 40,541 | 7 | 543 | – | 41,091 |

Notes to and forming part of the segment information:

a) The above industry segments derive revenue from the following operations and activities:

Storage and Handling: includes fees for receival, storage and testing of wheat, other grains and bulk commodities.

Marketing: marketing of grain and agricultural products and the operation of grain pools.

Other: sale of farm inputs and fees for transportation of commodities.

b) Intersegment pricing is on an "arm's length" basis.

c) The consolidated entity only operates in one geographical segment - Australia.

## 34. Reconciliation of Statements of Cash Flows

| | Consolidated 2003 $'000 | Consolidated 2002 $'000 | Parent Entity 2003 $'000 | Parent Entity 2002 $'000 |
|---|---|---|---|---|
| Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities. | | | | |
| Profit/(loss) from ordinary activities after income tax | (18,218) | 48,603 | 474 | 31,494 |
| Add/(less) items classified as investing/financing activities: | | | | |
| Net (profit)/loss on sale of investments | (6,933) | – | – | – |
| Net (profit)/loss on sale of non-current assets | (775) | 816 | – | – |
| Dividends received | (958) | (1,917) | – | (30,000) |
| Net (profit)/loss on sale of investment in controlled entity | – | (169) | – | – |
| Share buy-back transaction costs | – | – | – | – |
| Add/(less) non-cash items: | | | | |
| Share of (profit)/loss of associate not received as dividends | (1,783) | 90 | (1,895) | – |
| Depreciation/amortisation | 41,998 | 41,091 | – | – |
| Provision for employee entitlements | (1,718) | 580 | 254 | 822 |
| Net cash provided by operating activities before change in assets and liabilities | 11,613 | 89,094 | (1,167) | 2,316 |
| Changes in assets and liabilities net of effects from deconsolidation of previously controlled entity: | | | | |
| (Increase)/decrease in inventories | 33,875 | 536 | – | – |
| (Increase)/decrease in other assets | (392) | 581 | (288) | – |
| (Increase)/decrease in future income tax benefit | 980 | (3,063) | (1,067) | 49 |
| Increase/(decrease) in receivables | 58,464 | (34,278) | 420 | 3,866 |
| Increase/(decrease) in trade creditors | (912) | 4,512 | 1,426 | 276 |
| Increase/(decrease) in provision for income tax | (5,274) | 2,994 | – | (190) |
| Increase/(decrease) in provision for deferred tax | (4,277) | 958 | – | – |
| Increase/(decrease) in income received in advance | (424) | (525) | – | – |
| Increase/(decrease) in provision for claims | (3,864) | 1,518 | – | – |
| Net cash provided by operating activities | 89,789 | 62,327 | (676) | 6,317 |

## 35. Investment in Associated Companies

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting (Refer note 1(a)).

| **Company** | **Principal Activity** | **Ownership Interest** 2003 | 2002 | **Consolidated Carrying Amount** 2003 $'000 | 2002 $'000 | **Parent Entity Carrying Amount** 2003 $'000 | 2002 $'000 |
|---|---|---|---|---|---|---|---|
| Nugrain Pty Limited | Research | 25% | 25% | 50 | 50 | – | – |
| Advance Trading (Australia) Pty Limited | Risk Management | 25% | 25% | 19 | 26 | – | – |
| Sunprime Seeds Pty Limited | Research | 33% | 33% | 327 | 424 | – | – |
| National Grower Register Pty Limited | Register Management | 33% | 33% | – | – | – | – |
| Allied Mills Australia Pty Limited* | Mixing & Milling | 60% | 60% | 72,815 | – | 72,815 | – |
| Bulkeast Engineering Pty Ltd | Engineering Services | 50% | – | 500 | – | – | – |
| Bulk Terminals Australia Pty Ltd | Ports Operation | 50% | – | – | – | – | – |
| Australian Grain Accumulation Services Pty Ltd | Grain Accumulators | 50% | – | – | – | – | – |
| | | | | 73,711 | 500 | 72,815 | – |

* Equity interest in Allied Mills was 60%, however, voting rights were only 50%.

| | **Consolidated** Financial year to 30 September 2003 $'000 | Financial year to 30 September 2002 $'000 |
|---|---|---|
| **Movements in Carrying Amount of Investments in Associates** | | |
| Carrying amount at the beginning of the financial year | 500 | – |
| Investment in associates | 71,428 | 124 |
| Deconsolidation of Sunprime | – | 466 |
| Dividends received | – | – |
| Share of operating profit/(loss) after income tax | 1,783 | (90) |
| Reduction due to dividend and share buy back | – | – |
| | 73,711 | 500 |
| **Results Attributable to Associated Companies:** | | |
| Operating profits/(losses) before income tax | 2,547 | (90) |
| Income tax expense | (764) | – |
| Share of associates' operating profits/(losses) after income tax | 1,783 | (90) |
| Retained profits/(losses) attributable to associates at the beginning of the financial year | (90) | – |
| **Retained profits/(losses) attributable to associates at the end of the financial year.** | 1,693 | (90) |

| | **Consolidated** Financial year to 30 September 2003 $'000 | Financial year to 30 September 2002 $'000 |
|---|---|---|
| **Reserves Attributable to Associated Company** | | |
| Asset revaluation reserve | | |
| Balance at the beginning of the financial year | – | – |
| Increment/(decrement) on revaluation during the year | – | – |
| Control of previous associate as discussed above | – | – |
| Balance at the end of the financial year | – | – |
| **Summary of the Performance and Financial Position of Associates** | | |
| The aggregate profits, assets and liabilities of associates are: | | |
| Net profits/(losses) after income tax | (1,547) | (800) |
| Assets | 340,810 | 3,437 |
| Liabilities | 224,004 | 3,215 |
| Share of associate's expenditure commitments are: | | |
| Capital commitments | – | – |
| Lease liabilities | – | – |
| Contingent liabilities | – | – |

## 36. Non Cash Financing and Investing Activities

| | **Consolidated** 2003 $'000 | 2002 $'000 | **Parent Entity** 2003 $'000 | 2002 $'000 |
|---|---|---|---|---|
| Acquisition of plant and machinery by means of finance leases | – | 665 | – | – |

## 37. Earnings Per Share

| | **Consolidated** 2003 Cents | 2002 Cents |
|---|---|---|
| Basic earnings per share | (44.8) | 121.2 |
| Diluted earnings per share | (43.8) | 118.2 |
| Weighted average number of Ordinary shares used as the denominator in the calculation of basic earnings per share. | 40,673,036 | 40,174,806 |
| Weighted average number of Ordinary shares and potential Ordinary shares used as the denominator in the calculation of diluted earnings per share. | 41,613,036 | 41,202,806 |

For the year ended 30 September 2003

## 38. Financial Instruments

GrainCorp and its controlled entities are parties to derivative financial instruments with associated risk in the normal course of business in order to hedge exposure to fluctuations in commodity prices, foreign exchange and interest rates. Their use is subject to a comprehensive set of policies, procedures and limits approved by the Board of Directors.

(a) Commodity Price Risk

The consolidated entity is exposed to grain price fluctuations through its grain trading activities. To hedge this commodity price risk, the consolidated entity has entered into grain commodity futures contracts and grain commodity options contracts with terms between 2 and 16 months depending on the underlying transactions.

At balance date, net outstanding commodity futures contracts had a fair value of $73,779,763 (2002: $189,122,792) with various maturities up to January 2005. If settled at balance date, these contracts would have resulted in a gain of $504,469 (2002: loss of $10,279,000) which is offset by an unrecognised loss on the underlying transactions being hedged.

Commodity sold and bought options are marked to market at each balance date. These options with maturities up to February 2004, if closed out at balance date, would have resulted in a net gain of $20,145 (2002: gain of $1,088,873) which may be offset by an unrecognised loss on the underlying transactions being hedged.

(b) Foreign Exchange Risk

The consolidated entity hedges against exposures from grain futures taken in the US, Canada and Europe. When required to, hedging is undertaken through transactions entered into in foreign exchange markets. Forward exchange contracts and currency option contracts have been used for hedging purposes. The contracts are timed to mature when the grain futures expire.

At balance date, the outstanding foreign exchange contracts are (Australian Dollar equivalent).

| | 2003 A$'000 | 2003 Average Exchange Rate | 2002 A$'000 | 2002 Average Exchange Rate |
|---|---|---|---|---|
| **Buy US Dollars/Sell Australian Dollars** | | | | |
| 0 - 6 months | 25,200 | 0.6753 | 41,527 | 0.5419 |
| 6 - 12 months | 620 | 0.6360 | 955 | 0.5016 |
| **Buy Australian Dollars/Sell US Dollars** | | | | |
| 0 - 6 months | 31,070 | 0.6026 | 86,038 | 0.5396 |
| 6 - 12 months | 8,420 | 0.6271 | 8,008 | 0.5370 |
| 12 - 18 months | 250 | 0.6158 | 458 | 0.5459 |
| **Buy Canadian Dollars/Sell Australian Dollars** | | | | |
| 0 - 6 months | 4,200 | 0.8794 | 349 | 0.8596 |
| 6 - 12 months | 350 | 0.8923 | – | – |
| **Buy Australian Dollars/Sell Canadian Dollars** | | | | |
| 0 - 6 months | 12,900 | 0.8905 | 31,128 | 0.8327 |
| **Buy Euros/Sell Australian Dollars** | | | | |
| 0 - 6 months | – | – | 1,805 | 0.5540 |
| **Buy Australian Dollars/Sell Euros** | | | | |
| 0 - 6 months | 2,000 | 0.5791 | – | – |

As these contracts are hedging future settlement of US, European and Canadian grain and oilseed futures, any unrealised gains or losses on the contracts, together with the cost of the contracts, are deferred and will be recognised when the underlying transaction occurs.

The following foreign exchange gains and losses have been deferred.

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Unrealised gains | 4,413 | 1,614 |
| Unrealised losses | (1,390) | (936) |
| Net gain (loss) | 3,023 | 678 |

(c) Interest Rate Swap Contracts

Bank loans of the consolidated entity currently bear an average variable interest rate of 5.75% (2002: 5.42%). It is the consolidated entity's policy to protect part of the loans from exposure to increasing interest rates. Accordingly, it has entered into interest rate swap contracts under which the consolidated entity is entitled to receive interest at variable rates and is obliged to pay interest at fixed rates. The contracts require settlement of net interest receivable or payable each 90 or 180 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Swaps currently in place cover 39% (2002: 37%) of the total borrowings outstanding. The average fixed interest rate is 5.39% (2002: 6.81%) and the variable rates are between 0.50% and 1.00% (2002: 0.30% and 0.50% respectively) above 90 or 180 day bank bill rate.

At 30 September 2003, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| 0-1 years | 25,000 | 25,000 |
| 2-3 years | 5,000 | 40,000 |
| 4+ years | 62,280* | – |
| Total | 92,280 | 65,000 |

* Includes $47.28 million which is a natural hedge through subordinated debt.

The fair values of interest rate swaps are determined as the difference in present value of the future interest cashflow, amounting to a financial liability of $261,728 (2002: financial liability of $1,325,133).

For the year ended 30 September 2003

# 38. Financial Instruments (continued)

(d) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

| 2003 | Average interest rate % | Floating interest rate $'000 | Fixed interest maturing in: 1 year or less $'000 | over 1 year to 5 years $'000 | more than 5 years $'000 | Non interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Investments | | | | | | | – |
| Cash and deposits | | | | | | | – |
| Receivables | | | | | | 41,020 | 41,020 |
| Loan to associate | 5.93 | 47,280 | | | | | 47,280 |
| Interest rate swaps* | 4.90 | 92,280 | | | | | 92,280 |
| | | 139,560 | – | – | – | 41,020 | 180,580 |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts | 8.45 | 2,778 | | | | | 2,778 |
| Trade and other creditors | | | | | | 28,133 | 28,133 |
| Bills payable | 5.90 | 232,050 | | | | | 232,050 |
| Other loans | 5.30 | 23,563 | | | | 400 | 23,963 |
| Finance Leases | 7.13 | | 723 | 1,234 | | | 1,957 |
| Interest rate swaps* | 5.39 | 47,280 | 25,000 | 20,000 | | | 92,280 |
| | | 305,671 | 25,723 | 21,234 | – | 28,533 | 381,161 |
| Net financial assets (liabilities) | | | | | | | (200,581) |

* notional principal

| 2002 | Average interest rate % | Floating interest rate $'000 | Fixed interest maturing in: 1 year or less $'000 | over 1 year to 5 years $'000 | more than 5 years $'000 | Non interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Investments | | | | | | 25,195 | 25,195 |
| Cash and deposits | | | | | | | – |
| Receivables | | | | | | 95,949 | 95,949 |
| Interest rate collar* | 5.95 | | 1,500 | | | | 1,500 |
| Interest rate swaps* | 5.41 | 65,000 | | | | | 65,000 |
| | | 65,000 | 1,500 | – | – | 121,144 | 187,644 |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts | 8.45 | 8,606 | | | | | 8,606 |
| Trade and other creditors | | | | | | 29,469 | 29,469 |
| Bills payable | 5.42 | 176,100 | | | | | 176,100 |
| Other loans | 6.62 | 57,944 | | | | 800 | 58,744 |
| Finance Leases | 7.13 | | 195 | 1,911 | | | 2,106 |
| Interest rate collar* | 4.95 | | 1,500 | | | | 1,500 |
| Interest rate swaps* | 6.81 | | 25,000 | 40,000 | | | 65,000 |
| | | 242,650 | 26,695 | 41,911 | – | 30,269 | 341,525 |
| Net financial assets (liabilities) | | | | | | | (153,881) |

* notional principal

Reconciliation of Net Financial Assets to Net Assets

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Net financial assets (liabilities) as above | (200,581) | (153,881) |
| Non-financial assets and liabilities | | |
| Inventories | 32,656 | 66,532 |
| Property, plant and equipment | 383,903 | 416,402 |
| Intangibles | 11,351 | 8,047 |
| Other assets | 89,770 | 14,955 |
| Provisions | (42,002) | (47,136) |
| Other liabilities | – | – |
| Net assets per Statements of Financial Position | 275,097 | 304,919 |

(e) Credit Risk

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provision for doubtful debts.

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# 39. Financing Arrangements

Financing facilities available to the consolidated entity as at the end of the financial year and the extent to which they were used were as follows:

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | $'000 | $'000 | $'000 | $'000 |
| (i) Working Capital & Multi Option Facilities (a) | | | | |
| Available (b) | 143,696 | 249,456 | – | – |
| Used | 28,696 | 102,656 | – | – |
| Unused credit available | 115,000 | 146,800 | – | – |
| (ii) Term Facilities | | | | |
| Available | 232,050 | 142,900 | 114,450 | – |
| Used | 232,050 | 142,900 | 114,450 | – |
| Unused credit available | – | – | – | – |
| Total Facilities at year end | | | | |
| Available | 375,746 | 392,356 | 114,450 | – |
| Used | 260,746 | 245,556 | 114,450 | – |
| Unused credit available | 115,000 | 146,800 | – | – |

(a) Includes bank guarantees and other facilities.

(b) Includes the overdrawn facility for the pool, which the consolidated entity has the right to recover.

All facilities are extendable on an annual basis at the lenders option. All facilities are in good standing and will remain in good standing unless any of the default criteria are breached. Borrowings included in non-current liabilities represent facilities not due to mature within one year, or due within one year but will be funded by rolling over the debt on the same or another facility.

# 40. Subsequent Events

### Merger with Grainco Australia Limited

GrainCorp and Grainco merged on 1 October 2003 and the new combined entity will continue as GrainCorp Limited. The total cost of the merger was approximately $117.6 million. It included $105 million payable to Grainco shareholders (equivalent to $1.39 per Grainco Ordinary Share), $11.1 million payable to the ConAgra Trade Group ("ConAgra") for its 25% interest in MarketLink (Aust) Pty Ltd ("MarketLink") and $1.5 million in acquisition costs. The agreement gave Grainco shareholders a choice of cash and/or Reset Preference Shares (RPS) in GrainCorp and provided them with the option of continuing as a shareholder in the merged entity. The merger required a change to the constitution of GrainCorp to allow for RPS to be issued and to create an additional Board position for a Queensland representative until the 2004 AGM.

MarketLink was a joint venture between Grainco and ConAgra with Grainco holding 75% equity interest and ConAgra 25%. As part of the merger agreement, Grainco purchased the remaining 25% equity from ConAgra for approximately $11.1 million. This further purchase made MarketLink a wholly-owned subsidiary of Grainco. Therefore, GrainCorp became the ultimate holding company of MarketLink. Also, as a consequence of the merger, BTA will become wholly-owned by GrainCorp.

As part of the conditions of the merger, as agreed with the ACCC, GrainCorp has an undertaking to dispose of its interest in Australian Bulk Alliance Pty Ltd ("ABA") as soon as commercially possible.

### Reset Preference Shares

To fulfil the terms of the merger with Grainco, GrainCorp offered RPS at $100 each. The offer was structured in two parts: a priority offer to Grainco and GrainCorp shareholders and a subsequent offer to the public. GrainCorp set the maximum amount to be issued at $120 million which was over-subscribed. All priority and broker firm applications were satisfied in full, while applications made under the public offer were subject to a scale-back process. The RPS commenced trading on the ASX on a deferred settlement basis on 2 October 2003 and on a normal settlement basis on 8 October 2003.

RPS are non-cumulative preference shares quoted on the Australian Stock Exchange. Key features of RPS include:

- ***Preferred dividend:*** each RPS carries a preferred dividend fixed until 30 September 2006 at a rate of 6.5% pa which is expected to be fully franked;
- ***Reset mechanism:*** GrainCorp may reset certain terms of RPS on a Reset Date including the applicable dividend rate. The first Reset Date is 30 September 2006; and
- ***Conversion rights:*** in certain circumstances (including on a Reset Date) a holder of RPS may receive Ordinary shares in GrainCorp for their RPS at a discount of 2.5% to the relevant volume weighted average price of those Ordinary shares.

### Tax Consolidation

Tax consolidation legislation became substantively enacted during the year when the *New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002* was passed by the Senate.

At present, it is expected that there will be no material financial effect on the financial statements and at the date of this report, the Directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the legislation has not been recognised in this financial report in accordance with UIG 39 *Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances.*

### Other

Other than reported elsewhere in the Annual Report, no other matter or circumstance has arisen since 30 September 2002 which has significantly affected or may significantly affect:

(a) the consolidated entity's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the consolidated entity's state of affairs in future financial years.

# DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 10 to 52:

(a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 September 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligation or liabilities to which they are, or may become, subject to by virtue of a deed of cross guarantee.

This declaration is made in accordance with a resolution of the Directors.

Ronald Greentree

**R.L. Greentree** *Chairman*

Sydney
25 November, 2003

For the year ended 30 September 2003

# INDEPENDENT AUDIT REPORT

to the members of GrainCorp Limited and its Controlled Entities

## Audit opinion

In our opinion, the financial report of GrainCorp Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of GrainCorp Limited and the GrainCorp Group (defined below) as at 30 September 2003, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

## Scope

**The financial report and Directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for both GrainCorp Limited (the company) and the GrainCorp Group (the consolidated entity), for the year/period ended 30 September 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The Directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

**Audit approach**

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

# Independent Audit Report

## For the year ended 30 September 2003

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

**PricewaterhouseCoopers**

P J Carney

**P J Carney**
*Partner*

Sydney
25 November 2003

GrainCorp

Growing Solutions

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