GrainCorp

# ANNUAL REPORT 2006

*Always* GrainCorp

# GrainCorp's mission is to be the first choice Australian agri-business for growers, domestic and export customers, providing value for shareholders.

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**Dividend Policy**
...ainCorp has a divided payout ratio of a minimum 70 per cent ...rofit after tax.

**Gr... orp Website**
ww... ...incorp.com.au – GrainCorp's interactive website featu... ...orporate governance policies, the current Annual Repo... ...d full financials, plus interim financial reports. News and co... ...ate information is regularly updated for shareholders. Details... ...oard members are also provided.

**Shareh... ...er enquiries**
GrainC... Limited shareholders requiring information regarding their sh... ...oldings should contact the Company's registry at:

**Comp... ...share Investor Services Pty Limited**
GPO ... 7045
Syd... NSW 2001
Te... ...one: 1300 855 080
F... ...02) 8234 5050

**...emoval from Annual Report mailing list**
Shareholders can elect not to receive an Annual Report (but still receive a Notice of Meeting and Proxy Form) by contacting the share registry.

# Result Highlights

| | FY06 | FY05 | % change |
|---|---|---|---|
| Grain receivals ex farm | 10.8mt | 9.3mt | +16 |
| Grain exported through our terminals | 5.3mt | 4.7mt | [illegible] |
| Grain traded | 3.1mt | 2.8mt | [illegible] |
| Revenue and other income ($million) | $833.0 | $70[illegible].9 | +19 |
| EBITDA ($million) | $120.9 | $9[illegible] | [illegible] |
| NPAT* ($million) | $39.5 | $[illegible]8.[illegible] | [illegible] |
| Full year dividend | | | |
| - ordinary shares | $0.50 | $[illegible]7 | [illegible] |
| - RPS | $6.50 | $[illegible] | [illegible] |

*before $7.8m RPS distribution

# Key Shareholder Information

## Shareholder's Calendar 2007

| | |
|---|---|
| 22 February | Annual General Meeting |
| 31 May | Half year results announced |
| 30 September | GrainCorp Limited year end |
| 29 November | Full year results announced |

# Executive Profiles

**Tom Keene**
**Managing Director**
B.Ec. (UNE), FAICD
Member of the Trading Risk Management Committee. Chairman of Allied Mills Australia Pty Limited. Member of the Rabobank Advisory Board.

**Simon Bird**
**Chief Financial Officer**
B.Compt. Hons, FCPA, FAICD
Director of Agricultural Risk Management Services Pty Limited and AG Finance Limited.
Responsible for capital management, risk, taxation, financial reporting and compliance functions across the GrainCorp Group.

**Neil Johns**
**Chief Development Officer**
B.Com., M.Com., M.Bus., LTCL
Director of Export Grain Logistics Pty Limited, Allied Mills Pty Limited, QCE Pty Limited, NACMA.
Principal role includes corporate stategy, customer services, M&A, joint ventures and investments.

**Nigel Hart**
**Group Executive – Corporate Services & Company Secretary**
B.App.Sc. (UWS-H), FAICD
Company Secretary for all Group entities, Board Audit Committee, Remuneration and Nominations Committee and Trading Risk Management Committee. Director of GrainCorp AG Finance Limited and GrainCorp Superannuation Pty Limited. Member of the Trading Risk Management Committee. Previously held the position of Chief Executive Officer and Company Secretary with Grain Growers Association Limited.
Responsible for legal and corporate governance, Information Services, Human Resources, Industrial Relations, Corporate Relations and Corporate Administration.

**Kevin Lloyd**
**General Manager, Storage & Handling**
Director of Bulkeast Engineering Pty Limited and Export Grain Logistics Pty Limited. Responsible for GrainCorp's east coast receival and export facilities, engineering and technical services.

**Sam Tainsh**
**General Manager, Marketing**
B.Agr.Ec (UNE)
Director of Agricultural Risk Management Services Pty Limited. Responsible for all grain, oilseed and wool marketing and trading activities of the Company both domestically and internationally.

**Phillip Breeze**
**General Manager, AG Haul**
Director of Australian Grain Accumulation (AGA). Responsible for the implementation and growth strategies for GrainCorp's road and rail transport operations.

**John de Salis**
**General Manager, AG Finance**
B.Rur.Sc.(Hons), MBA (AGSM), M.App.Finance (Macquarie)
Responsible for GrainCorp's financial services business.

# Chairman's Report

"The next few years will be a very significant period for GrainCorp and the grains sector generally, and your Board of Directors look forward to the years ahead with confidence."

**Don Taylor** Chairman of GrainCorp

**It is a pleasure to present my first annual report since being appointed Chairman in December 2005. It has been an exciting year, with the release of a new strategic plan, good growth in each of the core business areas and, at year's end, imminent changes to the regulated marketing arrangements for wheat and barley exports.**

Ahead there are also significant opportunities both nationally and globally and the Board has given a clear directive that the Company needs to capitalise on these if it is to grow on a major scale.

The Company's strong financial performance, achieving a profit of $39.5 million profit (before reset preference share (RPS) distribution) and a 31% increase in earnings, reflects good grain receivals as well as a focus on cost reduction. The recent restructuring in the Storage & Handling network and Allied Mills has improved the bottom line, and the focus is now on increasing asset utilisation across the Company through efficiency gains and further diversification into non-grain products.

In line with our dividend policy, the full year fully franked dividend was 50 cents (the Company declared 20 cents in May and 30 cents in September, paid in July and October respectively). A RPS distribution of $7.8 million was also made.

During the year, the Board made a number of major decisions affecting the Company's share capital. These included the decision to convert the RPS to ordinary shares on 30 September 2006, initiating an on market buy back of up to 5% and activating the dividend reinvestment plan for the October 2006 dividend. The Board took these decisions in the interests of sound capital management, to improve gearing and position the Company for further growth.

Despite the current drought and notwithstanding the cyclical nature of agribusiness, our domestic and international environment presents significant prospects – but change, and some lateral thinking, will be required to fully realise the potential. Indeed the very structure of the Australian agribusiness sector needs to be reassessed.

Many rural companies, including GrainCorp, evolved from state based commodity specific organisations and their current structures reflect this history. This drought has brought into sharp focus the effects on the financial performance of such companies when the focus is on a single commodity even if there is some geographic diversity. With deregulated markets now applying to all rural commodities, the whole sector needs, in my view, to put aside vested interests and look at building a truly globally competitive rural service business with sufficient size to compete in the international market place.

The current structures are also inefficient and will always pay a high price for capital if they continue in their current form. While change is always difficult the failure to change will be all the more painful in the longer term.

The changing balance in the world grain supply/demand equation has seen some upward movement in international grain prices and I believe there are sound arguments that these trends will continue into the future. The increasing demand for biofuels coupled with the development in India and China should see Australia well placed to become the preferred food supplier into these markets. The major challenge to all primary industries is to capture these benefits against the backdrop of a strengthening Australian dollar. It seems ironic that the industries that create great wealth for the nation seem to benefit least because of the increasing value of our dollar.

The next few years will be a very significant period for GrainCorp and the grains sector generally, and your Board of Directors looks forward to the years ahead with confidence.

I would like to extend my thanks to the executive team and all members of staff who have given so much over the past twelve months. This year Tom Keene reached 40 years of continuous service in the business, and I would like to thank Tom for his dedication and all he has brought to the Company over those years.

**D. C. Taylor**
Chairman
Sydney, 29 November 2006

# Managing Director's Report

"GrainCorp has in place the marketing capabilities, systems, skills and experience that will enable immediate expansion into bulk wheat and barley exports as regulatory changes occur. As [illegible] 2006/07 will be an important year for the Company."

**Tom Keene** Managing Director of GrainCorp

**The performance of GrainCorp in the past year reflects the commitment of management and employees to deliver effective services, improve our operating efficiencies and reduce costs across the business.**

## Financial

With 10.8 million tonnes of grain received, the Company recorded an after tax profit of $39.5 million (before $7.8 million RPS distribution), up 193% on 2004/05. Earnings of $120.9 million were up 31% on the previous year, with strong growth in the three core businesses of Storage & Handling, Marketing and Allied Mills. Port revenues continued to grow with 5.3 million tonnes of grain exported during the year, and the Company traded a total of 3.1 million tonnes of grains in domestic and international markets.

During the year, $55 million of term debt was retired, again demonstrating the business' ability to generate cash. As a result, our gearing (term debt to equity) is on target at 46%.

The financial performance of each business unit is shown in the table opposite and operational issues associated with each are outlined in the "Review of Operations" section.

| EBITDA Performance by Business Unit | 2005/06 $m | 2004/05 $m |
|---|---|---|
| Storage & Handling | **124.3** | 92.3 |
| Marketing | **22.7** | 20.0 |
| Allied | **7.6** | 4.3 |
| AG Haul | **0.8** | 0.8 |
| AG Finance | **(0.8)** | (0.8) |
| AG Plus | **(5.7)** | (0.9) |
| Corporate | **(26.7)** | (26.7) |
| Other | **(1.3)** | 3.2 |
| **Total earnings** | **120.9** | 92.2 |

## Operational

A major cost reduction program was completed generating $10 million annually in recurrent indirect cost savings, of which $6 million was realised during the year. The majority of cost savings stemmed from a restructure of the country network and the closure of 85 sites, removing a layer of management and 130 positions, and centralising administration.

Coupled with a focus on costs, we also continue to invest in developing our safety management program, and this year we achieved a loss time injury score of 11.3, compared to the national average of 15.3. This is a significant result but we must remain vigilant.

The business also focused on improving its responsiveness to grower and customer needs with investment in systems, flexible operations and expansion of the product range. In turn, we have increased our domestic market share and further growth in this market remains a key target.

Our ability to respond to market demand was also demonstrated through Wheat Australia Pty Limited, a partnership between GrainCorp, ABB Grain Limited, and CBH Group, which supplied 350,000 tonnes of wheat to the Iraq market. This was established following the Iraq Grain Board's desire to continue buying Australian wheat and has enabled Australian growers to supply this important market.

At a local level, the GrainCorp Foundation contributed $270,000 to local communities by funding 120 individual projects in regional communities in Queensland, NSW and Victoria. The Foundation will play an important role in helping local communities recover from the drought next year.

## Outlook

The drought will impact on the business next year, however we will remain cash flow positive. Indeed compared to the previous drought in 2002/03, the business is in better shape having made major operational improvements, has a stronger balance sheet, and a high carry in of 5 million tonnes.

The Company's new three year strategic plan provides a clear blueprint to increase profits and achieve a return on equity to shareholders above 10%. The objectives of this plan include increasing domestic market share to 50%, network productivity by 5% and port earnings by more than 25%, and expanding trading opportunities to increase volumes by 25%. Work has already commenced on the specific initiatives to deliver targeted results.

At year's end, changes to wheat and barley exports were occurring, both of which provide excellent opportunities for GrainCorp. The power to veto wheat exports was transferred to the Government for six months, during which time growers will be consulted about alternate models. And a review of the South Australian barley arrangements recommended deregulation after a three year transition period. GrainCorp has in place the marketing capabilities, systems, skills and experience that will enable immediate expansion into bulk wheat and barley exports as regulatory changes occur. As a result 2006/07 will be an important year for the Company.

Our strong performance this year reflects the tremendous dedication, initiative and hard work of our staff. I thank them all for their individual contribution to our success in 2005/06.

# Review of Operations

## Profile

### Storage & Handling

- As the dominant bulk handler on the east coast, GrainCorp operates a network of 286 receival sites along the Eastern Australian grain belt, with more than 21 million tonnes of storage capacity. From these sites, domestic and export markets are serviced by road or rail.
- An open market place operates at these sites, with domestic and export buyers competing to buy grain. Growers can also elect to warehouse their grain at GrainCorp's modern facilities, allowing them time to make selling decisions.
- Nine port facilities are in operation for the export and import of grain, oilseeds, woodchips and other products. These ports have the capacity to handle 20 million tonnes per year.
- With extensive segregations and the ability to tailor to individual customer needs, GrainCorp services key customers in domestic (human consumption, industrial, feedlot, biofuel) and export markets (Asia, Europe and the Middle East).

### Marketing

- As the major non-monopoly holding grain marketer in Australia, GrainCorp provides cash prices, forward prices and pools in grains and oilseeds to a diverse range of growers, domestic and export customers.
- Specialist risk management services are provided to grain producers and customers to enable greater control of their grain marketing and buying.
- The business unit primarily manages risk through use of derivatives in compliance with the Company's Trading Risk Management Policy.
- Given the existing capabilities, skills and systems, the business unit has expanded into wool trading.

### Allied Mills

- Australia's leading domestic flour miller, Allied Mills, is a joint venture between GrainCorp Limited (60%) and Cargill Australia Limited (40%).
- Operating a national network of 12 flour mills, it produces a variety of milling and premix products for human consumption.
- GrainCorp's investment in Allied Mills provides supply chain synergies from farm to primary processing.

## Operational Highlights

- EBITDA of $124.3 million, up 35%.
- 10.8 million tonnes of grain (ex-farm) was received, up 16%.
- Consolidation of the receival network was undertaken to focus on 77 Primary Sites, which receive 80% of the grain. These primary sites can operate on a 24 hour basis to meet customer demand. A further 174 Major Sites and 35 Custom Sites support the Storage & Handling network.
- $25 million of capital expenditure enabled equipment upgrades and new storage and receival facilities at Primary Sites. The new $6 million hardwood facility at Portland was commissioned, generating increased revenue from woodchip exports.
- Completion of a $10 million cost reduction program, of which $6 million was realised in FY06.
- Major systems development projects commenced for stock management and real time tracking of individual site performance.

## Future Direction

- Increase network productivity through increasing rail capabilities, in and outloading speeds and moving to on demand operations at all Primary Sites.
- Increase asset utilisation for both upcountry storage and port facilities, including non-grain products through port terminals.
- Expand service and product range for growers and domestic buyers to increase domestic market share, including inventory and warehouse finance, insurance and a full logistics service.
- Implementation of new systems and procedures to ensure customer service targets are met in full, on time, in line with quality specifications.
- Continue development of improved stock management system.
- Strengthening the mobile equipment fleet.

## Operational Highlights

- EBITDA $22.7 million, up 14% due to strong trading performance.
- 3.1 million tonnes of grain traded, up 11%. This includes exports to Asia, Europe and the Middle East.
- Successful launch of GrainCorp Pools into South Australia and expansion of pools in Western Australia.
- ARMS re-launched and growing strongly.
- Successful entry into wool trading, which contributed 5% to EBITDA in its first year.
- As part of the Wheat Australia consortium, 350,000 tonnes of wheat was exported to Iraq.

## Future Direction

- Undertake further geographic expansion both domestically and internationally.
- Expand non grain trading in wool, and consider other agricultural commodity trading opportunities in Australia.
- Expand existing pool operations, and introduce new pools across Australia.
- Enter export barley market in South Australia as legislative arrangements allow.
- Commence bulk wheat exports if permitted following changes to regulated wheat export arrangements, utilising existing international grain trading capabilities and building on existing container wheat trade.

## Operational Highlights

- GrainCorp's share of earnings is $7.6 million, up 77%. This includes equity accounted after tax profit and interest income.
- Major restructuring and cost reduction program was completed, reducing cost by $20 million over the past four years.
- New management in place since November 2005, has revised the strategic plan and commenced implementation. The business is now on track to meet 10% return on investment target for GrainCorp.
- Commenced construction of an $85 million low cost manufacturing flour mill at Picton, NSW.

## Future Direction

- Continue construction of flour mill, with a completion date of April 2008.
- Implementing growth strategies for specialty grains.
- Target to achieve 10% return on investment for GrainCorp by FY09.

## Profile

### AG Finance

- As a new business unit, AG Finance provides services which complement Storage & Handling and Marketing activities, providing value for growers and domestic customers.
- Investment accounts including Yield Call Accounts and Growth Term Deposits are offered to customers. These accounts represent a competitive alternative to traditional bank accounts.
- Funds are on-lent to the GrainCorp Group to be used as a substitute for bank debt.
- The business unit will offer an expanded product range from 2007 onwards.

### AG Plus

- This business unit offers a range of seed, chemical, fertiliser and other farm inputs to producers of grain, dairy, and livestock.
- 27 GrainCorp Service Centres operate in conjunction with GrainCorp's Storage & Handling facilities throughout Queensland, NSW and Victoria.
- AG Plus has expanded its services at selected locations to include agronomic advice to our grain growing customers.

### AG Haul

- As an internal and external service provider, AG Haul provides rail and road transport services to millers, maltsters, feed lots, growers and grain traders.
- Operates contract rail services and has access to over 1,500 road vehicles across the east coast.
- Provides an on farm pick up service to transport grain from farm to receival sites.

## Business Units

| Operational Highlights | Future Direction |
| --- | --- |
| • EBITDA loss of $0.8 million, reflecting set up stage of the business unit.<br>• Deposit book reached $24.2 million in its first full year of operation.<br>• Second Prospectus released and lodged with ASIC on 29 March 2006. | • Launch new products including:<br>- Harvest Loans<br>- Inventory and Warehouse Finance<br>- Insurance product through Wesfarmers Federation Insurance (WFI)<br>• Two-fold strategy:<br>- To use finance products to attract more business to other business units<br>- Create new revenue streams from existing grower base |
| • EBITDA loss of $2.0 million resulting from difficult trading conditions arising from the drought, and loss of $3.7 million from one off inventory and other adjustments.<br>• Integration of the Goddard businesses in Narrabri and Gunnedah into the AG Plus model.<br>• Streamlining of the operational management team reduced from seven to five.<br>• Back office function consolidated to one site.<br>• Business model revised to include animal health and general merchandise as well as crop inputs. | • Ongoing growth through organic development and potential acquisitions.<br>• Establish a network of unmanned fuel depots.<br>• Develop sales specialist teams to offer a preferential value package to customers.<br>• Leverage the value of a retail rural presence to benefit other business units. |
| • EBITDA of $0.8 million, reflecting continual growth in external business.<br>• Design, development and implementation of HaulIT software computer system.<br>• Over 1.5 million tonne of grain was moved, an increase of 17%.<br>• Implemented WorkCover Driver Fatigue Management Plan. | • Total supply chain solution using road and contracted rail to meet domestic and customer requirements.<br>• Retailing of contract rail services to internal and external customers. |

| Farm Inputs | Finance | Grain Marketing | Storage & Handling | Logistics | Primary Processing |
| --- | --- | --- | --- | --- | --- |
| AG Plus | AG Finance | | | AG Haul | Allied Mills |

# Corporate Governance

## GrainCorp Limited and Controlled Entities 2005/2006

This statement outlines the principal corporate governance practices that were followed by the Company throughout the financial year, which comply with the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (Principles) released in March 2003, unless otherwise stated.

This statement should be read in conjunction with the GrainCorp Limited Concise Financial Report and Full Financial Report. GrainCorp already complies with most of the Principles, where it does not it is largely associated with the distinct control structure which operates through a controlling "Foundation Share". In 1998 GrainCorp received approval from the ASX to list the Company with a controlling Foundation Share ownership structure. This structure provides the Foundation Shareholder, Grain Growers Association Limited (Grain Growers), with special rights including the right to appoint a majority of Directors on the GrainCorp Limited Board and three quarters of the total number of votes entitled to be cast on a poll on special resolutions at General Meetings of the Company.

This structure is required under a listing rule waiver to be reviewed by shareholders every five years. The next such review will be conducted at the General Meeting in February 2008 where all ordinary shareholders and the 60,119,264 voting rights held by Grain Growers under Article 9.18 will vote on whether the Foundation Share should be retained or not. Whilst the Company has a controlling shareholder expressed through the Foundation Share and Grain Growers substantial ordinary shareholding the existing Company framework still aims to achieve effective corporate governance on behalf of all shareholders. A copy of the Company Constitution is available to be reviewed on the Company's website.

## The Roles of the Board and Management (ASX Principle 1)

The GrainCorp Board is accountable to shareholders for the business and affairs of the group and it sets the framework for the Company's long term performance.

The Board has a Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities in a manner which is consistent with Principle 1.

**Key functions of the Board include the following:**

- demonstrating the desired culture and values of the Company through the behaviour of the Board as a whole, and of each individual Director
- approving the Company's goals, direction, long term strategic plans, providing overall policy guidance
- ensuring there is a regular system of policy review and update and monitoring management's achievement of and compliance with the same
- ensuring appropriate policies and procedures for the management of business and financial risks and associated internal controls are in place and monitoring environmental and safety performance
- monitoring compliance with laws and ethical behaviour
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures
- appointing and approving the terms and conditions of appointment of the Managing Director and reviewing and providing feedback on the performance of the Managing Director
- determining that the Company accounts are true and fair
- overseeing and reviewing policies to promote timely and balanced disclosure of all material matters concerning the Company
- reviewing the Board's structure and performance annually and making recommendations to shareholders on new appointments to the Board.

The Managing Director is responsible to the Board for the ongoing management of GrainCorp in accordance with the strategy, policies and programs approved by the Board.

The Chairman and Managing Director establish the agendas for Board meetings, although Directors have the right to add items for Directors' consideration. Each committee chairman decides the length and frequency of committee meetings in consultation with committee members and consults with management on preparation of agendas.

The Board receives regular detailed financial and operational reports from management to enable it to carry out its duties. Senior executives attend Board and committee meetings when relevant matters are under consideration. Committee chairmen report on the work of their committee to the Board on a regular basis and the minutes of each meeting are tabled for Board information and consideration.

## Composition of the Board (ASX Principle 2)

There are currently 10 Non-Executive Directors and one Executive Director (the Managing Director). There are six "GGA Group" Non-Executive Directors, namely Messrs Mangelsdorf, Grigg, Delahunty, Flanery, Freeman and Eastburn, who do not meet the definition of independence as per Principle 2 as they are Directors of Grain Growers, a substantial and controlling shareholder of GrainCorp. GGA Group Directors are appointed to GrainCorp in accordance with Clause 10.3 of the Company Constitution not elected by shareholders. GGA Group Directors must be members of Grain Growers and two Directors are elected from each of three representative zones.

GGA Group Directors are subject to re-election by rotation at Grain Growers AGM. GGA Group Directors recognise and aim to achieve the obligation of bringing an independent judgement to decision-making in the interests of all shareholders.

Ordinary shareholders elect up to four independent "elected" Directors who are subject to re-election by rotation at the Company's Annual General Meeting. However, it is noted that Grain Growers has advised that it "intends to continue to abstain from voting its ordinary shares on resolutions with appointment and re-election of elected Directors while the Association still retains the Foundation Share unless the Board determines (in light of any prevailing circumstances) that such votes should be exercised."

Each elected Director has a three year term. Of the four elected Directors, Messrs Trebeck, Taylor and Curlewis are considered independent in accordance with the Principles. Mr Groves has served on the Board in excess of 10 years and the Board has considered whether this is a period of time which could materially interfere with his ability to act in the best interests of the Company. The Board considers that Mr Groves is an independent Director in accordance with the overall Principles given his continued and demonstrated performance and ability to act in the interests of the business. Within the subset of GrainCorp's elected Directors, and its current nomination process, the Board will take the number of independent Directors into account and will seek to satisfy this Principle fully in time, whilst avoiding any disruption to the effective functioning of the Board.

Each Director brings a range of skills and experience to the Company and this is outlined in the Directors' Report.

## Director Independence

The Board acknowledges the definition of Director independence as per the Principles, and in particular the obligation that all Directors should bring an independent judgement to bear in decision-making. In considering whether a Director is independent, the Board has regard to the independence criteria in Principle 2 and other facts, information and circumstances that the Board considers relevant.

The following materiality thresholds have been adopted in accordance with Principle 2:

1 Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company

2 Within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment
3 Within the last three years has not been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided
4 Is not a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
5 Has no material contractual relationship with the Company or another group member other than as a Director of the Company
6 Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company
7 Is free from any interest and any business or other relationships which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The names of the Directors in office at the date of this report, the year of their appointment, their status as Non-Executive, Executive or Independent Directors are set out in the table below.

| Name of Director | Appointed by | Year appointed | Non-executive | Executive | Independent |
|---|---|---|---|---|---|
| Don Taylor, Chairman | Shareholders | 2003 | Yes | | Yes |
| Leo Delahunty, Deputy Chairman | GGA | 2005 | Yes | | No |
| Tom Keene, Managing Director | Board | 1993 | | Yes | No |
| Doug Curlewis | Shareholders | 2005 | Yes | | Yes |
| John Eastburn | GGA | 2006 | Yes | | No |
| Ross Flanery | GGA | 1992 | Yes | | No |
| Rick Freeman | GGA | 1993 | Yes | | No |
| Paul Grigg | GGA | 2005 | Yes | | No |
| David Groves | Shareholders | 1994 | Yes | | Yes |
| Dan Mangelsdorf | GGA | 2005 | Yes | | No |
| David Trebeck | Shareholders | 2002 | Yes | | Yes |

## Company Chairman

The Company's Chairman, Mr Don Taylor, was appointed to the role by the Board in December 2005. Mr Taylor is considered to be independent in accordance with the Principles as discussed above.

## Chairman/Chief Executive Officer Roles

The roles of Chairman and Chief Executive Officer are exercised by different individuals. The Managing Director automatically relinquishes his position on the Board in the event that his executive position with the Company ceases. The role of the Chairman and the role of the Managing Director are available to be reviewed on the Company website.

## Director Selection and Re-election

The Remuneration and Nominations Committee (RNC) is responsible for assessing and making recommendations to the Board regarding membership of the Board and proposed new elected Director appointments.

**The Members of the Remuneration and Nominations Committee are:**

Don Taylor – Independent Non-Executive Chairman

David Groves – Independent Non-Executive Director

Paul Grigg – Non-Executive Director

This Committee has a charter outlining its roles and responsibilities, and is available to be reviewed on the Company website. Regarding the process of Director selection, the Remuneration and Nominations Committee assesses proposed elected Directors against a range of criteria including background, experience, professional skills, personal qualities, the candidate's skills to augment the existing Board, ability to be independent in decision making and the candidate's availability to commit to the Board's activities.

In the event of an appointment of a casual vacancy, that Director will retire at the next Annual General Meeting and will be eligible for re-election by shareholders at that meeting. Elected Directors seeking re-election will also undergo the formal assessment process outlined above, but also including a review of their recent performance on the Board. Where this performance is deemed unsatisfactory, the Director will not receive endorsement by the Board for re-election. The Remuneration and Nominations Committee also provides an assessment of a GGA Group Director's performance as a Director of GrainCorp to the Grain Growers' Board but does not participate in formally endorsing candidates.

## Ethical and Responsible Decision-Making (ASX Principle 3)

### Code of Conduct and Business Ethics

The Company has continued to manage within the policy framework of a Code of Conduct and Ethics for all Directors, officers and employees.

Under the Code of Conduct Directors, officers and employees are expected to:

- maintain unquestionable legal and ethical standards of personal conduct
- respect confidentiality
- avoid any real or perceived conflicts of interest
- act honestly and with integrity
- use GrainCorp's assets, information and facilities responsibly and in the interests of GrainCorp
- act in the best interests of all shareholders
- contribute to the Company's reputation as a good corporate citizen
- report any unethical practices of which they become aware.

During the period an enhanced Business Ethics Policy was established to further reinforce the Company's standards for business ethics and to explain the Company's prohibition on giving or receiving bribes.

The purpose of the Policy is to:

- ensure that the Company continues to strive to meet the highest ethical standards in its business dealings
- help complement and reinforce GrainCorp's strategic objective of acting fairly and honestly in everything that it does
- assist employees in obtaining a general understanding about the legal background to issues such as bribery, and ensure compliance with the terms and spirit of the *OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions (OECD Convention)* on bribery
- assist in compliance with the Company's legislative obligations, including its obligations under the Commonwealth *Criminal Code*

- help provide guidance to employees who, in implementing the Company's business objectives and with the best interests of the Company in mind, may nonetheless be confronted with ethical dilemmas which do not have obvious or simplistic solutions
- further enhance the Company's corporate governance policies and procedures, and its efforts to comply with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* that relate to the recognition and management of risk
- assist in establishing a benchmark against which the Company's approach to ethical issues such as bribery can be continuously and rigorously measured, improved and refined
- to ensure, so far as is practicable, compliance with local laws in foreign countries that are based on the *OECD Convention* or otherwise prohibit bribery.

To monitor compliance relevant employees will be requested to provide in writing to the Company Secretary, on an annual basis, a confirmation that they are aware of their obligations under the Business Ethics Policy and confirm that they have not breached the requirements of the Policy. The Trading Risk Management Committee and Board Audit Committee will receive a report from the Company Secretary detailing compliance with the policy by relevant employees.

The Code of Conduct and Business Ethics policy are available to be reviewed on the Company website.

## Share Trading

All designated officers and their associates are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company.

In addition, while in possession of unpublished price sensitive information designated officers and their associates must not advise others to trade in the Company's securities or communicate the information to another person knowing that the person may use the information to trade in, or procure someone else to trade in, the Company's securities.

Subject to the above general prohibition on insider trading, designated officers and their associates may only trade in the Company's securities during the following periods ("**trading windows**"):

(i) Six weeks commencing 48 hours from the date of lodgement of the half yearly accounts of the Company with the ASX

(ii) Six weeks commencing 48 hours from the date of lodgement of the preliminary final report of the Company with the ASX

(iii) Six weeks commencing 48 hours from the date of the Annual General Meeting of the Company

(iv) Commencing from the 8th business day (seven day exposure period) from lodgement with ASIC of a Prospectus and ending on the close of the offer and subject to no material matters being raised by the Due Diligence Committee during the life of the Prospectus (wherein a supplementary prospectus would ordinarily be issued)

(v) On retirement or departure from the Company former designated officers, contractors and users of general ledger financial systems and their related parties (as defined in accounting standard AASB 124) are restricted from trading Company shares for a period of 12 weeks or the occurrence of (i), (ii) and (iii) above

(vi) any other period, of such duration, as determined by the Board of the Company from time to time.

The Board may impose an embargo, at any time, upon trading in the Company's securities if it believes that a market sensitive event has occurred or is likely to occur.

Each Director has entered into an agreement "Director and his disclosure of interests and transactions in Securities" with GrainCorp Limited in accordance with the ASX Listing Rules.

During the period it was noted that a Group Director may have breached the Company's Code of Conduct in relation to share trading by associated parties.

As a consequence, the share trading policy has been amended and clarified, a continuing education training session on the requirements of the share trading policy has been conducted and the Director's Code of Conduct modified to require Director compliance with all Company policies at all times.

Also, all Directors are encouraged to undertake continuing education and resources are made available to facilitate this. In this regard, the Board has this year undertaken further training and presentations in relation to insider trading and the share trading policy.

The share trading policy is available to be reviewed on the Company website.

## Integrity of Financial Reporting (ASX Principle 4)

Consistent with ASX Principle 4 the CEO and CFO report in writing to the best of their knowledge and belief that the Company's interim and full year financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The Company has adopted a detailed verification process to validate the statement from the CEO and CFO that the financial reports present a true and fair view.

### Board Audit Committee

The Company Board Audit Committee was established in 1993. The current members of the Committee are:

David Trebeck – Independent Non-Executive Chairman

Doug Curlewis – Independent Non-Executive Director

Rick Freeman – Non-Executive Director

The composition of the Board Audit Committee complies with Recommendation 4.3 in all respects. Details of each committee member's experience are set out in the Directors' Report and indicate that each of them is suitably qualified to be a member of the Board Audit Committee.

The Board Audit Committee Charter is consistent with Principle 4. The Board Audit Committee assists the Board in fulfilling its oversight responsibilities especially in respect of corporate governance, financial reporting and corporate control. The Board Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit coverage and process, and the Company's process for monitoring compliance with laws and regulations and governance of the Company. The Board Audit Committee will also review any material changes in accounting policy.

The Board Audit Committee has, during the year, reviewed and approved an internal audit plan incorporating a comprehensive business review process in respect of internal audit management functions.

The Board Audit Committee reviews progress in, and reports arising from, the Internal Business Audit Plan as well as specific issues or matters which may arise from the internal and external audit process. Meetings are held at least four times a year. The Board Audit Committee reports to the Board after each meeting.

Management, internal and external auditors are invited to attend Board Audit Committee meetings to ensure that adequate controls and practices are maintained throughout the Group. The Board Audit Committee plays an active role in reviewing the adequacy of the existing External Audit arrangements, and is responsible for ensuring that the auditors have the necessary qualifications and skills and that the scope and quality of their audit is appropriate. The external auditors have direct access on a regular basis to the Board Audit Committee without management involvement.

### External Auditor Independence and Declaration

An Auditor Independence Policy has been adopted which sets out the key principles to be followed by the audit firm in its relationship with the Company. The policy requires the approval of the Board Audit Committee for the provision of non-audit services to the Company or its related entities. The policy has a set of guidelines that assist in identifying the types of services that may compromise the independence of external auditors.

In respect of financial years commencing on or after 1 July 2004, the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 ("CLERP 9") amendments to the Corporations Act 2001 require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies. PricewaterhouseCoopers has provided such a declaration to the Board Audit Committee for the financial year ended 30 September 2006.

### External Audit Performance Assessment

The Board Audit Committee conducts a formal assessment of external auditor performance each year and reports the outcome to the Board. If it becomes necessary to replace the external auditor for performance or independence reasons, the Board Audit Committee will then formalise a procedure and policy for the selection and appointment of new auditors. The Company's external auditor, PricewaterhouseCoopers, has a policy for the rotation of lead audit partners. The lead audit partner was last rotated in October 2002.

The Board Audit Committee makes recommendations to the Board in relation to the appointment of external auditors. In accordance with good governance practice the Board Audit Committee has conducted a tender for the supply of external audit services. PricewaterhouseCoopers as external auditors were successful in retaining their role. The outcome of this tender will be advised to shareholders in due course.

A copy of the Board Audit Committee Charter and information on the rotation of external audit engagement partners is available on the Company website.

## External Auditor Attendance at AGM (ASX Principle 6 (6.2))

Consistent with ASX Principle 6 and CLERP 9, PricewaterhouseCoopers attends the Annual General Meeting of the Company to answer shareholder questions about the conduct of the audit and the preparation of the auditor's report. Shareholders may submit questions for the external auditors to the Company Secretary no later than five business days before an Annual General Meeting.

## Continuous Disclosure to ASX (ASX Principle 5)

As a guiding principle, GrainCorp ensures that it does not communicate material price or value sensitive information to an external party (advisors are deemed to be internal parties) except where that information has previously been disclosed to the market generally. The Company has adopted a continuous disclosure and financial markets communication policy to ensure compliance with ASX Listing Rule disclosure obligations. The policy:

- gives guidance as to the types of information that may require disclosure, including examples of practical application of the rules
- gives practical guidance for dealing with market analysts and the media
- identifies the correct channels for passing on potentially market sensitive information as soon as it comes to hand
- establishes regular occasions at which senior executives and Directors are actively prompted to consider whether there is any potentially market-sensitive information which may require disclosure
- allocates responsibility for approving the substance and form of any public disclosure and communications with investors.

The Company Secretary is responsible for overseeing and co-ordinating disclosure of all communications to the ASX and is accountable for that disclosure. The Board Audit Committee reviews its disclosure practices of the Company to shareholders and relevant external agencies.

The Company's continuous disclosure and market communication policies are available to be reviewed on the Company's website.

## Communication with Shareholders (ASX Principle 6 (6.1))

The shareholders of GrainCorp Limited play an important role in corporate governance by virtue of their responsibility for voting for the appointment of elected Directors. The Board ensures that shareholders are kept fully informed on developments affecting the Company through:

- the annual and interim results which are released through reports, newsletters and presentations
- compliance with ASX's continuous disclosure listing rules
- the Annual General Meeting and other meetings called to obtain approval for Board action
- maintaining a comprehensive website containing all Company announcements and key Company operations.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals. In addition, the Board has worked with management to develop a strategy for effective communication with shareholders and participation at General Meetings. This takes the form of an Investor Relations Plan. A summary of the Company's Investor Relations Plan appears on the Company website.

## Risk Management (ASX Principle 7)

Management of risk is an essential element of the Company's strategy. The Board is responsible for overseeing, reviewing and ensuring the effectiveness and integrity of GrainCorp's risk management systems.

The Board Audit Committee oversees GrainCorp's risk management systems on behalf of the Board and reports regularly to the Board in relation to them. The Managing Director has been charged with implementing appropriate risk management systems within the organisation. The Managing Director works with relevant staff members to ensure that all major risks are identified and appropriately managed and that GrainCorp's risk management systems are in accordance with the Company's risk management policies.

The management Business Risk Committee chaired by the Managing Director, and comprising the Chief Financial Officer, General Manager – Storage & Handling and Group Executive, Corporate Services/Company Secretary, meets quarterly or as required to identify, assess and control material risks across the Group. The Company has adopted policies and procedures for risk management processes using AS4360:2003 as a guide. A series of improvements identified through a comprehensive risk assessment using this model are in the process of being implemented. Each business unit is responsible for the implementation of policies and procedures to manage those risks.

In addition to maintaining appropriate insurance and other risk management measures, identified risks are managed through:

- established policies and procedures for the managing of funding, foreign exchange and financial instruments (including derivatives) including the prohibition of speculative transactions. The Board has approved Treasury policies regarding exposures to foreign currencies, interest rates, commodity price, liquidity and counterparty risks which include limits and authority levels.
- standards and procedures in relation to environmental and health and safety matters.
- training programs in relation to legal and compliance issues such as trade practices and occupational health and safety.
- procedures requiring that significant capital and revenue expenditure and other contractual commitments are approved at an appropriate level of management or by the Board.
- comprehensive management guidelines setting out the standards of behaviour expected of employees in the conduct of the Company's business.

The Board reviews all major submissions and purchases for their impact on the risks facing GrainCorp and directs management to institute appropriate actions. As part of its strategic planning activities, the Board reviews all major strategies for their impact on the risks facing GrainCorp.

Similarly, GrainCorp reviews all aspects of its operations for changes to the risk profile on an annual basis. This annual review includes an assessment of insurance policies, which is overseen by the Board Audit Committee.

### Trading Risk Management Committee

The Board established, in 1998, a Trading Risk Management Committee which oversees the development of policies to manage the risks associated with grain and wool marketing and farm inputs. The policies specify trading limits, approved risk management tools, credit management and delegations for authorising transactions and segregation of duties.

### The current members of the Committee are:

Leo Delahunty – Committee Chairman and Non-Executive Director

Don Taylor – Company Chairman and Independent Non-Executive Director

Dan Mangelsdorf – Non-Executive Director

Ross Flanery – Non-Executive Director

Rick Lee – Independent external appointment

Tom Keene – Managing Director

Nigel Hart – Group Executive, Corporate Services and Company Secretary

The Trading Risk Management Committee meets quarterly. A joint Trading Risk Management Committee and Board Audit Committee Meeting is held annually to discuss risk management issues.

### Internal Audit

The internal audit function is independent of the external audit function. The internal audit team monitors the internal control framework of the group and provides reports to the Board Audit Committee. The Board Audit Committee approves the internal audit charter and the annual internal audit plan to ensure that planned audit activities are aligned to business risks. The Board Audit Committee also reviews internal audit reports issued by the internal audit team and monitors progress with implementing recommendations made in these reports to ensure improvement in the internal control environment of the Company.

A description of the Company's risk management policy is available to be reviewed on the Company website. GrainCorp's Managing Director and CFO report in writing to the Board Audit Committee that:

- the statement given in accordance with the ASX Best Practice Corporate Governance Council Recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

## Performance (ASX Principle 8)

### Board Performance

The Board has adopted a process of evaluation to measure its own performance and the performance of all Board Committees. This process involves a confidential questionnaire being completed by each Director against GrainCorp's Corporate Governance framework.

The process involves the following review areas:

- defining governance roles
- improving Board processes
- key Board functions
- continuing improvement.

A performance evaluation using this process was conducted in August 2006. In line with GrainCorp's commitment to continuous improvement, at the conclusion of each Board meeting a Non-Executive Director on a rotating basis provides a review of the meeting processes and outcomes to identify any areas where improvements can be achieved. In addition, the performance of each Non-Executive Director is formally reviewed on an annual basis by the Chairman. Similarly the Chairman's performance is reviewed annually by the full Board. Also, all Directors are encouraged to undertake continuing education, and resources are made available to facilitate this.

### Executive Performance

The Board monitors key performance indicators for the Managing Director and members of the Executive team on a monthly basis through general reporting and a comprehensive performance management system. The system monitors key objectives in the following areas:

- corporate financial and strategic performance
- business unit performance
- personal performance.

The Board and Remuneration and Nominations Committee review the performance of the Managing Director and executive management through monthly reporting, Board presentations, business planning sessions and the key performance indicator system. A more detailed review is provided in the Remuneration Report in the Directors' Report.

## Remuneration (ASX Principle 9)

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee principal functions include:

- reviewing the composition, performance, induction and membership of the Board and providing recommendations on new appointments; and
- reviewing and recommending to the Board the overall direction of GrainCorp's philosophies, strategies and determination in respect of remuneration, benefits, recognition of executive and employee performance, succession planning and executive development.

The Company has adopted, and adheres to, a comprehensive policy on remuneration strategies for Directors and employees to enhance corporate performance. The following statements provide a summary of the link between remuneration and corporate performance for Directors and key executives.

### Non-Executive Director Remuneration

Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company other than the Non-Executive Director Deferred Share Plan. The Remuneration and Nominations Committee reviews the Non-Executive Directors' remuneration arrangements and recommendations are then submitted to the Board for their review and approval.

In determining the Non-Executive Directors' remuneration the Remuneration and Nominations Committee draws on survey data on fees paid by comparable companies, together with an assessment of any changes in the level of responsibilities. With the exception of the Chairman and Deputy Chairman, additional yearly fees are paid to Directors who are members of committees.

The Board recommends to shareholders, from time to time, a quantum of total Directors' fees. The Annual General Meeting of shareholders in 2001 approved a total Non-Executive Director remuneration pool of up to $1 million annually.

In addition to reimbursement of expenses, any allowance paid to Directors is in line with Australian Taxation Office reasonable daily travel allowance amounts.

In December 2003 the Board resolved to cease any further contributions to retirement benefits excluding statutory entitlements. The benefit accrued by each Director prior to 16 December 2003 has been preserved at the accrued level made payable on retirement in cash and not indexed from the cessation date. The previous policy for retiring Non-Executive Directors provided 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). New Directors post December 2003 are not eligible for a retirement benefit.

In line with ASX Corporate Governance Council guidelines on Non-Executive Director remuneration, Non-Executive Directors are entitled to participate in the GrainCorp Non-Executive Director Deferred Share Plan. They may acquire ordinary shares through on-market purchases in lieu of fees. However, they are not entitled to participate in GrainCorp's Employee Share Acquisition Plan, Employee Exempt Share Plan, Defered Employee Share Plan or Performance Share Rights Plan.

A more detailed review is provided in the Remuneration Report, in the Directors' Report.

### Executive Remuneration

GrainCorp operates in a global marketplace and the Remuneration and Nominations Committee recognises that long-term success depends on the calibre of people leading and managing a diverse business across a wide regional distribution. To this end, the Company seeks to attract, reward and retain high performing executives with potential to develop and meet the future needs of the organisation.

The key principles of GrainCorp's remuneration philosophy are:

1 Remuneration practices adopted by the Company will be legal, ethical and consistent with being a good corporate citizen
2 The Company will take into account all corporate governance principles and guidelines issued from time to time by relevant organisations and institutions but will make decisions based on the best interests of the Company and its shareholders
3 The Company will comply with remuneration disclosures as required by law and will seek to maintain the highest standards of clarity and transparency in communications with shareholders
4 The Company will comply with regulatory requirements relating to:
   a. shareholder approval of both binding and non-binding resolutions regarding executive remuneration
   b. disclosure of executive remuneration in annual reports or elsewhere.
5 The cost of remunerating each executive will be composed of fixed and variable components. Thus, the value to the executive of the remuneration received will vary having regard to performance of the Company, and/or division and/or business unit and/or the executive
6 Remuneration quantum and mix should place the Company in a sound position to secure the services of executives of the caliber required by the Company to be successful in terms of long term returns to shareholders
7 The Company believes that the long term interests of executives and shareholders should be aligned and that such alignment is best achieved by executives having significant shareholdings in the Company. Therefore, executive remuneration should facilitate and encourage executives to receive part of their remuneration in the form of shares in the Company, particularly

when their shareholdings are less than significant in value. Consequently, under the Executive Remuneration Policy, the remuneration of executives may comprise the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations
- a short term incentive performance based bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance
- a long term incentive plan in which the level of benefit derived by participants relates to a combination of factors including earnings per share, total shareholder returns and benchmarking against other ASX listed companies
- statutory superannuation.

By remunerating executives through performance and long term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of executives with those of all shareholders and increased Company performance.

A more detailed review is provided in the Remuneration Report, in the Directors' Report.

## Interests of Stakeholders (ASX Principle 10)

### Code of Conduct

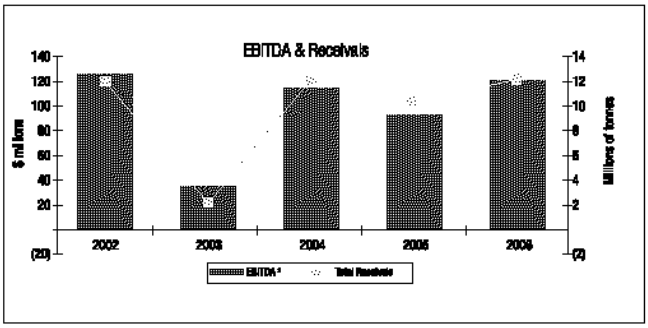
The Company Code of Conduct and Ethics is consistent with ASX Principles 3 and 10 and has been posted to the Company website. The Code of Conduct and Ethics specifically provides that any employee who reports a breach of the Code will not be disadvantaged or prejudiced.

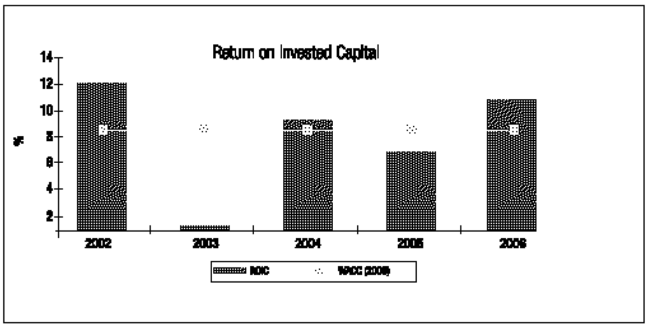
A review of the Company's policies is underway in light of the protection for whistleblowers contained in the CLERP 9 amendments to the Corporations Act.

# Year Financial History

| | | 2002 | 2003 | 2004 | 2005[1] | 2006[1] |
|---|---|---|---|---|---|---|
| **Drivers** | | | | | | |
| Total receivals | m/t | 12.0 | 2.1 | 12.0 | 10.2 | 12.1 |
| Outloadings - domestic | m/t | 4.9 | 4.6 | 4.5 | 5.3 | 5.1 |
| Outloadings - international | m/t | 6.8 | 1.2 | 5.9 | 4.7 | 5.3 |
| Carryover | m/t | 4.6 | 0.9 | 3.0 | 3.3 | 4.9 |
| **Earnings** | | | | | | |
| Total revenue | $m | 700.0 | 512.9 | 964.1 | 702.9 | 833.0 |
| EBITDA[2] | $m | 125.6 | 34.1 | 114.7 | 92.2 | 120.9 |
| Net profit/(loss) after tax attributable to members | $m | 48.7 | (18.2) | 25.7 | 13.5 | 31.7 |
| **Assets & Equity** | | | | | | |
| Total assets | $m | 627.1 | 606.0 | 897.5 | 830.2 | 968.1 |
| Net tangible assets per ordinary share[3] | $ | 7.4 | 6.5 | 6.6 | 6.4 | 6.9 |
| Total equity | $m | 304.9 | 275.1 | 398.6 | 396.7 | 408.2 |
| Debt to equity[4] | % | 80.5 | 94.8 | 79.0 | 74.1 | 74.8 |
| **Shareholder Returns** | | | | | | |
| Basic earnings/(loss) per ordinary share | cents | 121.2 | (44.8) | 43.7 | 13.9 | 77.6 |
| Return on equity | % | 16.0 | (6.6) | 6.4 | 3.4 | 7.8 |
| Return on invested capital | % | 12.2 | 0.3 | 8.9 | 6.5 | 10.4 |
| Dividend per ordinary share[5] | cents | 78.0 | - | 41.0 | 7.0 | 50.0 |
| Dividend yield per ordinary share[5,6] | % | 8.0 | - | 4.7 | 0.9 | 8.9 |
| Dividend per reset preference share[5] | cents | - | - | 650.0 | 650.0 | 650.0 |
| Dividend yield per reset preferences share[5,6] | % | - | - | 8.8 | 9.0 | 9.3 |

1. 2005 has been restated and 2006 is in compliance with Australian equivalents to International Financial Reporting Standards
2. EBITDA is earnings before interest, tax, depreciation and amortisation
3. Excludes reset preference shares at nominal value
4. Debt includes an amount for commodities inventory which is offset by an inventory balance
5. All dividends were fully franked and yields include franking credit
6. Using closing price immediately prior to or on 30 September divided by dividends for year



# Shareholder Information

The shareholder information set out on pages below was applicable as at 30 November 2006.

## Distribution of Ordinary Shares

| Distribution of Ordinary Shares | Number of Shareholders |
|---|---|
| 1 – 1,000 | 7,122 |
| 1,1001 – 5,000 | 4,463 |
| 5,001 – 10,000 | 828 |
| 10,001 – 100,000 | 471 |
| 100,001 and over | 46 |
| **Total** | 12,930 |

## Twenty Largest Shareholders

### Fully Paid and Employee Shares

| | | Number of Shares Held | Percentage of Issued Capital |
|---|---|---|---|
| 1 | Grain Growers Association Limited | 8,648,024 | 15.13 |
| 2 | RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C> | 4,838,414 | 8.47 |
| 3 | UBS Nominees Pty Limited | 1,311,210 | 2.29 |
| 4 | Westpac Custodian Nominees Limited | 971,174 | 1.70 |
| 5 | RBC Dexia Investor Services Australia Nominees Pty Limited <GSJBW A/C> | 793,150 | 1.39 |
| 6 | UBS Wealth Management Australia Nominees Pty Limited | 764,507 | 1.34 |
| 7 | J P Morgan Nominees Australia Limited | 608,275 | 1.06 |
| 8 | Mr Ronald Lewis Greentree and Mr Bruce Maylon Harris 'Oreel' Rowena | 553,896 | 0.97 |
| 9 | National Nominees Limited | 516,877 | 0.90 |
| 10 | NBT Pty Limited | 500,050 | 0.88 |
| 11 | Sandhurst Trustees Limited <SISF A/C> | 492,216 | 0.86 |
| 12 | NBT Pty Limited <ASTOR A/C> | 375,000 | 0.66 |
| 13 | ANZ Nominees Limited <A/C MMC Contrarian Ltd> | 340,208 | 0.60 |
| 14 | ANZ Nominees Limited <A/C MMC Asset Mannagement> | 319,648 | 0.56 |
| 15 | DB Capital Pty Limited | 307,143 | 0.54 |
| 16 | Linkshore Pty Limited | 280,000 | 0.49 |
| 17 | DB Capital Pty Limited | 278,643 | 0.49 |
| 18 | Janvin Pty Limited | 260,168 | 0.46 |
| 19 | Mr Berge Der Sarkissian | 257,134 | 0.45 |
| 20 | Citicorp Nominees Pty | 251,789 | 0.44 |

## Substantial Shareholders

The following shareholders and their related parties had substantial shareholdings in GrainCorp Limited shares as at 30 November 2006.

| | | Ordinary Shares | |
|---|---|---|---|
| | | Number of shares held | Percentage of issued capital |
| 1 | Grain Growers Association Limited | 8,648,024 | 15.13 |
| 2 | Investors Mutual Limited | 5,698,604 | 10.03 |

## Voting Rights

The voting rights attached to each class of shares are set out below:

1 Ordinary shares – on a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

2 Foundation Share

a. No ordinary resolution can be passed without the affirmative role of the Foundation Share, except for the appointment of elected Directors

b. For a special resolution, the Foundation Share carries 75 percent of the total number of votes entitled to be cast.

# 2006 Concise Financial Report

# Directors' Report

**The Directors present their report on the consolidated entity consisting of GrainCorp Limited ("GrainCorp") and the entities it controlled at the end of, or during, the year ended 30 September 2006.**

## Directors

The following persons were Directors of GrainCorp during the financial year and up to the date of this report:

D.C. Taylor (Chairman)

L.M. Delahunty (Deputy Chairman)

T.B. Keene (Managing Director)

G.D.W. Curlewis

J.W. Eastburn [1]

R.R. Flanery

R.G. Freeman

P.W. Grigg

D. Groves

D. Mangelsdorf

D.B. Trebeck

R.L. Greentree [2]

1 J.W. Eastburn was appointed 22 February 2006
2 R.L. Greentree resigned 23 December 2005

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## 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, wool and other bulk commodities and the operation of grain pools
- road and rail transport services for bulk commodities
- provision of farm input products
- banking deposits management
- flour milling and mixing services (through investment in Allied Mills).

## Dividends

The following fully franked dividends have been provided for or paid to shareholders during the year:

| | Ordinary Shares | | Reset Preference Shares | |
|---|---|---|---|---|
| | Cents per Share | Amount $'000 | Cents per Share | Amount $'000 |
| Final for 2005 | 5 | 2,045 | 327.7 | 3,932 |
| Interim for 2006 | 20 | 8,180 | 324.1 | 3,889 |
| Final for 2006 | 30 | 12,275 | 325.9 | 3,911 |

The Directors approved the payment of a final fully franked ordinary dividend of 30 cents per fully paid share ($12.3 million) which was paid on 27 October 2006 out of consolidated retained profits at 30 September 2006. This has been provided for in full as at 30 September 2006.

## Australian Equivalents to International Financial Reporting Standards (AIFRS)

This is the first full-year financial report to be prepared under the new AIFRS accounting standards. Comparative information for 2005 has been restated to comply with AIFRS. Full details of the Group's accounting policies updated for AIFRS, and reconciliations of the changes to comparative information are provided in the Full Financial Report.

## Review of Operations

Ex-farm receivals during the year were 10.8 million tonnes (2005: 9.3 million tonnes) with export shipping of 5.3 million tonnes (2005: 4.7 million tonnes). The consolidated entity recorded a profit after tax of $31.7 million for the financial year compared with $13.5 million for the previous year. This year's profit is after $7.8 million in payments to reset preference share holders which were treated as dividends in the 2005 financial year. If adjusted for comparability with the prior year, the profit of $31.7 million would be $39.5 million.

EBITDA increased from $92.2 million to $120.9 million. The higher receivals and exports, and cost reduction measures contributed to the improvement in profit. Net profit also included a number of significant items in the year. These were (all before tax):

- Reset preference share payments of $7.8 million
- Unrealised gains on commodity contracts of $11.7 million
- Depreciation reduction of $9 million due to a change in estimate of useful economic lives of certain plant and equipment.

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

## Significant Changes in State of Affairs during the Financial Year

### Reset Preference Shares

As at the reset date of 30 September 2006, the reset preference shares were converted to ordinary shares in accordance with the terms of the Reset Preference Share Prospectus dated 7 July 2003. 15,975,683 ordinary shares were issued which equated to 13.3147 ordinary shares for every one reset preference share held based on a conversion price of $7.5105.

### Wheat Australia

In March 2006, Wheat Australia Pty Limited (Wheat Australia) was established in partnership with ABB Grain Limited and the CBH Group to export grain to Iraq. This joint venture ensured continuance of an important market for Australian wheat. On 30 May 2006, Wheat Australia successfully concluded an agreement with the Iraqi Grains Board (IGB) for the sale of 350,000 tonnes of wheat. As the IGB has expressed its preference for buying wheat from a source other than AWB Limited, Wheat Australia is well placed to meet any future requirements.

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

## Matters Subsequent to the End of the Financial Year

### Dividend Reinvestment Plan (DRP)

The DRP, as approved by shareholders at the AGM in 2004, was activated for the October 2006 dividend payment. The issue price for the issue of shares under the DRP was set at $7.66 (including a discount of 2.5%) and was determined by the weighted average price for the business days between the ex-dividend date of 25 September 2006 and the record date of 29 September 2006. Subsequent to period end, 250,997 shares were issued for a value of $1,924,964.

### Share Buy Back

On 11 September 2006, GrainCorp announced an on-market buy back of its ordinary issued shares, for up to 5% of the shares on issue prior to 30 September 2006. Commencing on 3 October, the buy back is expected to be completed within 12 months. At the date of this report, 83,000 shares have been acquired for a total consideration of $599,371.

Other than reported above, no other matter or circumstance has arisen since 30 September 2006 which has significantly affected or may significantly affect:

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

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

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

## Likely Developments

### Drought

Due to worsening drought conditions across most of the east coast of Australia, receivals will be significantly lower in the next financial year. The current estimate is between 2 and 4 million tonnes resulting in a net forecast loss after tax of between $20 and $30 million. The impact has been lessened by significant responsive cost management measures and increased diversification in revenue generation.

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.

### Environment

GrainCorp is committed to ensuring its business practices are conducted in an environmentally responsible manner. Management of operations and assets is 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 the development of improvement strategies
- developing and encouraging employee awareness of, and responsibility to, environmental issues
- monitoring performance of the consolidated entity in respect of environmental issues and adjusting processes accordingly
- introducing procedural guidelines to address task-specific environmental concerns.

An important part of the GrainCorp Environmental Management System (EMS) is 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

**D.C. (Don) Taylor (Chairman) B.Com., CA, Grad.Cert.Rur.Sc., FAICD, AICD Advanced Program 2005**

Grower from Moonie, Queensland. Chartered Accountant with audit and taxation experience in manufacturing and heavy industry. Former executive Chairman of Grainco Australia Limited and Chairman of Carrington Cotton Corporation (previously listed). Chairman of the Remuneration and Nominations Committee and GrainCorp Foundation. Member of the Trading Risk Management Committee (*Shareholdings 2,219*).

**L.M. (Leo) Delahunty (Deputy Chairman) FAICD, AICD Advanced Program**

Grower from Murtoa, Victoria. Director of Grain Growers Association Limited (GGA) and Wimmera Racing Limited. Chairman of the Trading Risk Management Committee. Co-founder and former Director of DIRT Management Pty Limited. Previously Director of Pivot, Incitec Pivot Limited and Harvest Grain Australia (*Shareholdings 76,333*).

**T.B. (Tom) Keene (Managing Director) B.Ec., FAICD**

Managing Director of GrainCorp Group, Director of GrainCorp AG Finance Limited. Member of the Trading Risk Management Committee. Chairman of Allied Mills Australia Pty Limited. Member of the Rabobank Advisory Board (*Shareholdings 247,680*).

**G.D.W. (Doug) Curlewis B.A., MBA**

Company Director from Victoria. Director of Pacifica Group Limited, Nufarm Limited and GUD Holdings Limited. Member of Indec Consulting Advisory Board. Former Chairman of Remunerator Australia Pty Limited. Former Managing Director of National Consolidated Limited. Former Director of National Foods Limited, The Alfred Foundation (Alfred Hospital) and Hamilton Island Limited. Member of the Board Audit Committee (*Shareholdings 1,000*).

**J.W. (John) Eastburn MAICD**

Grower from Baradine, NSW. Prime Wheat Association and Grain Growers Association member since 1974, serving on the Grain Growers Association Limited Committee of Advice for 15 years, Grain Growers Association Limited Policy Group for five years and acted as the R&D subcommittee Chairman. He has completed a number of business and self development programmes (*Shareholdings 430*).

**R.R. (Ross) Flanery FAICD**

Grower from Harden, NSW. Chairman of Hydropwer Pty Limited and Envirogen Pty Limited. Director of Grain Growers Association Limited. Member of the Trading Risk Management Committee (*Shareholdings 87,694*).

**R.G. (Rick) Freeman**

Grower from Edgeroi, NSW. Company principal of Norseman Machinery Imports Pty Limited. Director of Grain Growers Association Limited and GrainCorp Superannuation Pty Limited. Member of the Board Audit Committee (*Shareholdings 136,192*).

**P.W. (Paul) Grigg GAICD**

Grower from Patchewollock, Victoria. Director of Grain Growers Association Limited. Member of the Remuneration and Nominations Committee (*Shareholdings 3,467*).

**D. (David) Groves B.Com., M.Com., CA, FAICD**

Chartered Accountant and Company Director. Director of Masling Industries Pty Limited, Equity Trustees Limited and Kambala (Independent school for girls). Member of MIR Management Limited Advisory Council. Member of the Remuneration and Nominations Committee (*Shareholdings 1,765,590*).

**D. (Dan) Mangelsdorf B.Agr.Ec.(Hons), GAICD**

Grower from West Wyalong, NSW. Chairman of Grain Growers Association Limited. Member of the Trading Risk Management Committee (*Shareholdings 2,377*).

**D.B. (David) Trebeck B.Sc.Agr.(Hons), M.Ec., GAICD**

Consultant, Grower and Company Director from Canberra, ACT. Commissioner of the National Water Commission. Director of Maersk Australia Pty Limited and the Oceania Business Coordination Board of AP Moller Maersk and Director of the Institute of Public Affairs. Chairman of the Board Audit Committee. Former Managing Director of ACIL Consulting Pty Limited. Former Director of Incitec Pivot Limited and Pipers Brook Vineyard Limited (*Shareholdings 23,181*).

All Directors' shareholdings are as at 30 September 2006.

## Former Directors

**R.L. (Ron) Greentree (Chairman) FAICD, AICD Advanced Program 2005**

Grower from Mungindi, NSW. Principal of an agricultural machinery business and Chairman of BRI Australia Limited. Former Director of Grain Growers Association Limited. Former Chairman of the Remuneration and Nominations Committee and GrainCorp Foundation. (Resigned 23 December 2005)

Details of Directors' interests in shares and options of GrainCorp are set out in Note 34 of the Full Financial Report.

## Company Secretary

**Nigel Hart B.App.Sc. (Systems Ag) (UWS-H), FAICD**

Group Executive – Corporate Services and appointed Company Secretary in May 2001 for all Group entities, Board Audit Committee, Remuneration and Nominations Committee and Trading Risk Management Committee. Director of GrainCorp AG Finance Limited and GrainCorp Superannuation Pty Limited.

## 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 2006, and the number of meetings attended by each Director.

| Director | Full Board Meetings | | Board Committee Meetings | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Ad-hoc Committee | | Audit | | Remuneration & Nominations | | Trading Risk Management | | Joint Audit & Trading Risk Management | |
| | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| R.L. Greentree [1] | 3 | 3 | ~ | ~ | ~ | ~ | 3 | 3 | ~ | ~ | ~ | ~ |
| D.C. Taylor | 14 | 14 | 2 | 2 | ~ | ~ | 7 | 7 | 4 | 4 | 1 | 1 |
| L.M. Delahunty | 14 | 14 | ~ | ~ | ~ | ~ | ~ | ~ | 3 | 3 | 1 | 1 |
| T.B. Keene | 14 | 14 | 2 | 2 | ~ | ~ | ~ | ~ | 4 | 4 | 1 | 1 |
| G.D.W. Curlewis | 14 | 14 | ~ | ~ | 4 | 4 | ~ | ~ | ~ | ~ | 1 | 1 |
| J.W. Eastburn [2] | 9 | 9 | ~ | ~ | ~ | ~ | ~ | ~ | ~ | ~ | ~ | ~ |
| R.R. Flanery | 14 | 14 | ~ | ~ | ~ | ~ | ~ | ~ | 4 | 3 | 1 | 1 |
| R.G. Freeman | 14 | 14 | ~ | ~ | 4 | 3 | ~ | ~ | ~ | ~ | 1 | 1 |
| P.W.Grigg | 14 | 14 | ~ | ~ | ~ | ~ | 4 | 4 | ~ | ~ | ~ | ~ |
| D. Groves | 14 | 14 | ~ | ~ | ~ | ~ | 7 | 6 | ~ | ~ | ~ | ~ |
| D. Mangelsdorf | 14 | 14 | ~ | ~ | ~ | ~ | ~ | ~ | 4 | 4 | 1 | 1 |
| D.B. Trebeck | 14 | 14 | ~ | ~ | 4 | 4 | ~ | ~ | ~ | ~ | 1 | 1 |

A - Number held during period in office. B - Number attended. ~ - Not a member of the relevant committee.

1 R.L. Greentree resigned 23 December 2005.
2 J.W. Eastburn was appointed 22 February 2006.

## Remuneration Report

This report details GrainCorp's remuneration policy for Directors and key management personnel and the links between the performance of the consolidated entity and individual remuneration outcomes. The report incorporates the disclosure requirements of accounting standard AASB 124, as well as those prescribed by the Corporations Act 2001. The disclosures required under accounting standards have been transferred from the notes to the financial statements and have been audited. The disclosures in Section E are the additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited. Details of equity holdings, loans and other transactions with respect to Directors and key management personnel are disclosed in Note 34 of the Full Financial Report.

# A. Principles used to Determine the Nature and Amount of Remuneration

## Managing Director and Senior Executives

### Remuneration Strategy and Structure

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

In consultation with external remuneration consultants, the Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests is based on the following strategy:

- has economic profit as a core component of plan design
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to participants' interests is based on the following strategy:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executive responsibility increases, the balance of this mix shifts to a higher proportion of "at risk" rewards.

### Policy

1 This policy applies to the Managing Director, the executive team and senior managers. It does not apply to Non-Executive Directors.

2 Executive remuneration is composed of three main elements:

   a. Base package

   b. Short term incentive (STI) – cash bonus

   c. Long term incentive (LTI).

3 The base package is a fixed component of remuneration in that once it is determined the amount does not vary with performance. However, individual performance is taken into account when reviewing the quantum of base packages and determining the amount of increase, if any, to be provided. There are no guaranteed base pay increases fixed in any senior executives' contracts. Base packages are composed of the cost to the Company of salary, benefits, fringe benefits tax and gross-up in relation to costs that do not qualify as Company income tax deductions such as Company superannuation

contributions in excess of the deductible limits. Add-on costs such as payroll tax and workers compensation insurance are not part of base packages.

4 Flexibility is allowed as to the mix of base packages between salary and benefits so that they better meet the needs of the executives. Flexibility is such that the total cost to the Company is not changed by the benefit selections. Statutory obligations in relation to superannuation contributions are fulfilled as part of the construct of remuneration packages.

5 Base package levels are:

   a. reviewed annually and adjusted on 1 October each year

   b. benchmarked against market practice at least annually

6 Short term incentives are performance related components of remuneration. Performance is judged in three areas, as detailed below in Performance of GrainCorp Limited. The performance measures, standards of performance and weightings are determined each year for each executive having regard to the nature of the role and business plans.

7 Long term incentives are performance related components of remuneration. The level of benefit derived by participants relates to a combination of factors including earnings per share, total shareholder returns and benchmarking against other ASX listed companies.

The performance related components of remuneration for key management personnel are set so that the bonus opportunity of total base package is as follows:

| Position | Target Bonus | Maximum Bonus |
|---|---|---|
| Managing Director | 30% | 60% |
| Other executives | 15 % or 22.5% | 30% or 45% |

**Performance of GrainCorp Limited**

Key performance indicators (KPIs) have been established and are monitored to review the performance of the Managing Director and key management personnel. The system monitors key objectives in the following three areas:

- Corporate Performance
- Business Unit Performance
- Individual Performance

The Board and the Remuneration and Nominations Committee review the performance of the Managing Director and Executive management through monthly reporting, board presentations, business planning sessions and the key performance indicator system.

Further details regarding the Remuneration and Nomination Committee can be found in the Corporate Governance Statement in the Annual Report.

## Non-Executive Directors

The Company has adopted a remuneration strategy and policy for Directors to enhance corporate performance.

**Policy**

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance-based bonuses and do not participate in equity schemes of the Company other than the Non-Executive Director Deferred Share Plan. Non-Executive Directors are entitled to statutory superannuation and where appointed prior to 16 December 2003 will receive a capped retirement benefit. In addition to reimbursement of expenses, any allowance paid to Directors is in line with Australian Taxation Office reasonable daily travel allowance amounts.

The Remuneration and Nominations Committee reviews the Non-Executive Directors' remuneration arrangements and details are then submitted to the Board for its review and approval.

**Directors' fees**

The Board recommends to shareholders, from time to time, a quantum of total Directors' fees. Non-Executive Directors' annual fees are established based on independent advice. With the exception of the Chairman and Deputy Chairman, additional yearly fees are paid to Directors who are members of committees. The Annual General Meeting of shareholders in 2001 approved a total Non-Executive Director remuneration pool of up to $1 million annually.

Non-Executive Directors' annual fees since 1 October 2005 were $56,784 per Director, $85,176 for the Deputy Chairman and $170,352 for the Chairman. With the exception of the Chairman and Deputy Chairman, additional yearly fees of $5,200 were paid to Directors who were members of committees other than the Board Audit Committee. Yearly fees for the Board Audit Committee were $8,320 for members and $15,600 for the Chairman. No increase to Directors' fees occurred on 1 October 2006.

**Retirement Benefits**

In December 2003 the Board resolved to cease any further contributions to retirement benefits excluding statutory entitlements. The benefit accrued by each Director prior to 16 December 2003 has been preserved at the accrued level and will be paid on retirement in cash and not indexed from the cessation date. The previous policy for retiring Non-Executive Directors provided 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). New Directors post December 2003 will not be eligible for a retirement benefit.

**Share based compensation**

In line with ASX Corporate Governance Council guidelines on Non-Executive Director remuneration, Non-Executive Directors are entitled to participate in the GrainCorp Non-Executive Director Deferred Share Plan. They may acquire ordinary shares through on market purchases in lieu of fees. However, they are not entitled to participate in GrainCorp's Employee Share Acquisition Plan, Employee Exempt Share Plan, Deferred Employee Share Plan or Performance Share Rights Plan.

## B. Details of Remuneration (audited)

Details of the remuneration of the Directors and the key management personnel of GrainCorp Limited and the consolidated entity are set out in the following tables.

### Directors of GrainCorp Limited

| 2006 | Short Term Benefits | | | Post Employment Benefits | Termination Benefits | Share Based Payments | | Total |
|---|---|---|---|---|---|---|---|---|
| Name | Cash Salary and Fees $ | Cash Bonus $ | Non-monetary Benefits $ | Super-annuation $ | Retirement / Redundancy $ | Share Sacrifice $ | Share Rights[1] $ | $ |
| R.L. Greentree [2] | 42,462 | - | - | 3,035 | - | - | - | 45,497 |
| D.C. Taylor | 122,304 | - | - | 46,135 | - | 5,000 | - | 173,439 |
| L.M. Delahunty | 43,114 | - | - | 36,547 | - | - | - | 79,661 |
| T.B. Keene [3] | 573,216 | 189,571 | 84,374 | 31,976 | 891,000 | 20,000 | 56,000 | 1,846,137 |
| D. Curlewis | 65,282 | - | - | 5,857 | - | - | - | 71,139 |
| J.W. Eastburn [4] | 37,755 | - | - | 3,261 | - | 962 | - | 41,978 |
| R.R. Flanery | 66,572 | - | - | 5,580 | - | 1,000 | - | 73,152 |
| R.G. Freeman | 65,190 | - | - | 5,867 | - | - | - | 71,057 |
| P.W. Grigg | 61,015 | - | - | 5,364 | - | - | - | 66,379 |
| D. Groves | 24,557 | - | - | 12,955 | - | 25,385 | - | 62,897 |
| D. Mangelsdorf | 41,938 | - | - | 5,574 | - | 20,000 | - | 67,512 |
| D.B. Trebeck | 47,330 | - | - | 6,510 | - | 25,000 | - | 78,840 |
| **Total** | **1,190,735** | **189,571** | **84,374** | **168,661** | **891,000** | **97,347** | **56,000** | **2,677,688** |

1 Based on an independent valuation by KPMG Actuaries performed for the year ended 30 September 2005, and updated to reflect current position.
2 R.L. Greentree resigned 23 December 2005 and declined to receive a retirement benefit of $336,809.
3 T.B. Keene is the Managing Director of the GrainCorp group and the only executive Director on the Board. In accordance with Clause 2.5 Termination Upon Expiry of Term of the Managing Directors' Service Agreement, the Board determined to make an additional ex-gratia payment of 12 months' remuneration package of $891,000 to the Managing Director payable at the end of his tenure. This amount has been provided for in the accounts but no payment has been made in the financial year.
4 J.W. Eastburn was appointed 22 February 2006.

| 2005 | Short Term Benefits | | | Post Employment Benefits | Share Based Payments | | Total |
|---|---|---|---|---|---|---|---|
| | Cash Salary and Fees | Cash Bonus | Non-monetary Benefits | Super-annuation | Share Sacrifice | Share Rights[1] | |
| **Name** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| R.L. Greentree | 163,680 | - | - | 11,691 | - | - | 175,371 |
| D.C. Taylor | 63,825 | - | - | 5,610 | 4,808 | - | 74,243 |
| T.B. Keene[2] | 547,107 | 181,238 | 24,711 | 96,119 | 19,231 | 289,230 | 1,157,636 |
| D. Curlewis | 37,492 | - | - | 3,342 | - | - | 40,834 |
| L.M. Delahunty | - | - | - | - | - | - | - |
| R.R. Flanery | 65,885 | - | - | 5,630 | 962 | - | 72,477 |
| R.G. Freeman | 64,945 | - | - | 5,845 | - | - | 70,790 |
| P.W. Grigg | - | - | - | - | - | - | - |
| D. Groves | 32,214 | - | - | 5,495 | 28,846 | - | 66,555 |
| D. Mangelsdorf | 30,855 | - | - | 3,192 | 4,615 | - | 38,662 |
| D.B. Trebeck | 45,971 | - | - | 6,260 | 24,039 | - | 76,270 |
| A.D. McCallum[3] | 80,499 | - | - | 8,022 | - | - | 88,521 |
| W.G. Barron[4] | 19,750 | - | - | 2,361 | 12,163 | - | 34,274 |
| N. Burton Taylor[5] | 25,893 | - | - | 2,656 | - | - | 28,549 |
| R.J. Hards[6] | 58,591 | - | - | 5,273 | - | - | 63,864 |
| **Total** | **1,236,707** | **181,238** | **24,711** | **161,496** | **94,664** | **289,230** | **1,988,046** |

1 Based on an independent valuation by KPMG Actuaries performed for the year ended 30 September 2005.
2 T.B. Keene is the Managing Director of the GrainCorp group and the only executive Director on the Board.
3 A.D. McCallum resigned 26 August 2005 and was paid $217,162 in December 2005 (accrued in prior year).
4 W.G. Barron retired 23 February 2005 and received retirement payment of $164,637 (accrued in prior year).
5 N. Burton Taylor retired 17 February 2005 and received retirement payment of $180,907 (accrued in prior year).
6 R.J. Hards resigned 26 August 2005.

For the 2006 financial year, the Managing Director achieved 70% of performance targets.

## Other Key Management Personnel

The key management personnel are the Directors of GrainCorp Limited and the following executives with authority and responsibility for planning, directing and controlling the activities of the consolidated entity and the Company in the financial year. They include the five executives who received the highest emoluments in the Company and the consolidated entity during the year ended 30 September 2006.

| Name | Position |
|---|---|
| S.G.B. Bird | Chief Financial Officer |
| J. Di Leo [1] | Chief Operating Officer |
| A.N. Johns | Chief Development Officer |
| N.P. Hart | Group Executive - Corporate Services & Company Secretary |
| K.J. Lloyd | General Manager, Storage & Handling |
| S. Tainsh | General Manager, Marketing |
| A. Single [2] | General Manager, AG Plus |
| J. Molenaar [3] | General Manager, AG Plus |
| J. Breeze | General Manager, AG Haul |
| J. de Salis | General Manager, AG Finance |

1 J. Di Leo became Managing Director of Allied Mills on 7 November 2005 and the GrainCorp position of Chief Operating Officer was made redundant on 4 November 2005.
2 A. Single resigned his position at 18 November 2005.
3 J. Molenaar commenced his position on 23 January 2006.

Details of the remuneration of key management personnel other than Directors are set out in the table below.

| 2006 | Short Term Benefits | | | Post Employment Benefits | Termination Benefits | Share Based Payments | | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash Salary and Fees | Cash Bonus | Non-monetary Benefits | Super-annuation | Retirement / Redundancy | Share Sacrifice | Share Rights [1] | |
| Name | $ | $ | $ | $ | $ | $ | $ | $ |
| J. Di Leo [2] | 47,537 | - | 3,019 | 1,401 | 1,078,445 | - | - | 1,130,402 |
| K.J. Lloyd | 329,451 | 58,289 | 38,347 | 12,265 | - | - | 13,318 | 451,670 |
| A.N. Johns | 225,442 | 59,280 | 37,301 | 12,340 | - | 1,000 | 12,564 | 347,927 |
| S. Tainsh | 236,743 | 66,203 | 5,700 | 18,064 | - | 5,000 | 12,564 | 344,274 |
| S.G.B. Bird | 239,804 | 38,171 | 18,072 | 20,065 | - | - | 13,318 | 329,430 |
| N.P. Hart | 212,575 | 35,672 | 35,043 | 12,340 | - | 1,000 | 12,313 | 308,943 |
| J. de Salis | 202,252 | 30,576 | 11,996 | 12,265 | - | - | 10,554 | 267,643 |
| A. Single [3] | 26,744 | - | 13,730 | 1,939 | 224,511 | - | - | 266,924 |
| J.P. Breeze | 151,000 | 21,837 | 2,516 | 69,356 | - | 577 | 9,297 | 254,583 |
| J. Molenaar [4] | 148,142 | 20,250 | 19,446 | 8,297 | - | - | - | 196,135 |
| **Total** | **1,819,690** | **330,278** | **185,170** | **168,332** | **1,302,956** | **7,577** | **83,928** | **3,897,931** |

1 Based on an independent valuation by KPMG Actuaries performed for the year ended 30 September 2005, and updated to reflect current position.
2 J. Di Leo became Managing Director of Allied Mills on 7 November 2005 and the GrainCorp position of Chief Operating Officer was made redundant on 4 November 2005. Mr Di Leo received a final payment of $1,078,445. Performance share rights were forfeited for no payment.
3 A. Single resigned his position at 18 November 2005 with final payment of $224,511. Performance share rights were forfeited for no payment.
4 J. Molenaar commenced his position on 23 January 2006.

| 2005 | Short term benefits | | | Post Employment Benefits | Share Based Payments | | Total |
|---|---|---|---|---|---|---|---|
| | Cash Salary and Fees | Cash Bonus | Non-monetary Benefits | Super-annuation | Share Sacrifice | Share Rights [1] | |
| **Name** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| J. Di Leo [2] | 397,551 | 89,677 | 51,306 | 11,713 | - | 129,264 | 679,511 |
| K.J. Lloyd | 340,201 | 50,006 | 22,594 | 11,713 | - | 68,785 | 493,299 |
| S. Tainsh | 226,988 | 60,600 | 6,156 | 17,512 | 4,808 | 64,891 | 380,955 |
| S.G.B. Bird | 241,157 | 39,379 | 6,546 | 19,512 | - | 68,785 | 375,379 |
| A.N. Johns | 217,650 | 55,125 | 24,176 | 11,770 | 961 | 64,891 | 374,573 |
| N.P. Hart | 207,699 | 35,417 | 26,581 | 11,787 | 962 | 63,593 | 346,039 |
| J. de Salis | 194,474 | 30,093 | 22,191 | 11,713 | - | 54,509 | 312,980 |
| J.P. Breeze | 148,221 | 28,675 | 3,842 | 36,394 | - | 48,020 | 265,152 |
| A. Single [3] | 166,837 | 29,726 | 2,076 | 12,179 | - | 49,318 | 260,136 |
| **Total** | **2,140,778** | **418,698** | **165,468** | **144,293** | **6,731** | **612,056** | **3,488,024** |

1 Based on an independent valuation by KPMG Actuaries performed for the year ended 30 September 2005.
2 J. Di Leo became Managing Director of Allied Mills on 7 November 2005 and the GrainCorp position of Chief Operating Officer was made redundant on 4 November 2005. Mr Di Leo received a final payment of $1,078,445. Performance share rights were forfeited for no payment.
3 A. Single resigned his position at 18 November 2005 with final payment of $224,511. Performance share rights were forfeited for no payment.

## C. Service Agreements (audited)

The following terms set out the service agreement of the Managing Director, GrainCorp Limited, Mr. T.B. Keene.

| | Agreement with Managing Director |
|---|---|
| **(i) Term of Contract** | A three year contract commenced on 27 August 2003 with an option for the Company to renew for a further two years. The Board has resolved to exercise the option with the contract to expire on 27 August 2008. |
| **(ii) Remuneration** | The remuneration package is made up as follows:<br>• Base package reviewed annually and benchmarked against an agreed relevant peer group<br>• Short Term Incentive (STI).The total available quantum is 60% of base package with a target of 40%<br>• Long Term Incentive (LTI). Performance Share Rights are based on EPS and TSR hurdles, as detailed in Performance Conditions, below. Total available quantum is 120% of base package with a target of 60%. |
| **(iii) Termination** | |
| Managing Director initiated termination | • 12 months' notice required and the Managing Director would receive pro-rata Base Package up to the date of termination<br>• Pro-rata STI for the year in which the termination occur<br>• Company may pay Base Package in lieu of notice. |
| Company initiated terminations without cause i.e. other than above | Current contract provides for 12 months' notice. In addition the Managing Director would receive:<br>• pro-rata Base Package up to the date of termination<br>• a pro-rata STI having regard to the Board's assessment of performance to the date of termination<br>• a severance payment of one times the total of the annual rate of Base Package and the target STI payout, at the date of termination e.g. Mergers and Acquisitions – consistent with Company policy of 12 months plus application of redundancy policy (5 weeks plus 3 weeks for every year of service up to 52 weeks). |
| Managing Director end of term payment | In order to clarify to the Managing Director and the market the intent of the existing Clause 2.5 Termination Upon Expiry of Term, the Board has resolved to provide for an end of term payment to the Managing Director by including the following in his new contract:<br>In accordance with Clause 2.5 Termination Upon Expiry of Term the Board determined in their absolute discretion in December 2005, to make an additional ex-gratia payment of 12 months' remuneration package to the Managing Director in recognition of his 42 years of service, his success as Managing Director and that a long term incentive plan has only applied to the latter part of his tenure. The payment is contingent upon his not being dismissed or resigning without the consent of the Board prior to the expiration of the contracted term. |

All key management personnel are covered by a standard agreement which requires thirteen weeks notice.

# D. Share-based Compensation (audited)

## Executive Option Plan

The GrainCorp Limited Executive Option Plan concluded on 30 September 2005. No options were available for exercise as neither the Total Shareholder Return nor Earnings Per Share hurdles for the period 1 October 2002 to 30 September 2005 were met.

The Executive Option Plan was terminated by the Board on 22 November 2005 following the introduction of the Performance Share Rights Plan that was effective since 1 October 2004.

## Shares under Option

No options have been granted during or since the end of the financial year to any Directors or key management personnel of the Company and consolidated entity.

## Performance Rights Share Plan

The GrainCorp Performance Rights Share Plan ("Plan") provides eligible employees the opportunity to participate in competitive performance based remuneration incentives.

The plan enables selected eligible employees (including the Managing Director) to participate in a long-term performance based incentive plan to acquire rights as part of their remuneration and to share in GrainCorp's financial performance. The plan is intended to encourage eligible employees to have a greater involvement in the achievement of GrainCorp's objectives, which will benefit all shareholders. An eligible employee is someone who is a permanent full time employee of the GrainCorp Group.

Under the plan, an eligible employee may be granted a number of rights, each right may be converted into one share on the satisfaction of certain performance conditions. The number of rights available to be granted, other than the initial grant, is determined by the following process:

(a) Base salary multiplied by standard grant LTI value %

(b) Divided by the Volume Weighted Average Share Price for the period 1 September – 30 September.

There is no amount payable for the grant of a Right and there is no exercise price payable on the exercise of a right. Rights may be exercised on the exercise date (being the date on which the performance conditions are satisfied). Rights will expire (lapse) on the fifth anniversary of the date they are granted.

## Performance Conditions

Rights vest only if certain performance conditions are fulfilled. The performance conditions include two measures:

- The threshold Earnings Per Share ("EPS") growth for the Company's shares must be at least 4% average per annum compound in respect of each measurement period
- the Total Shareholder Return ("TSR") ranking for the Company is at least equal to the 50th percentile of the S&P/ASX 200 Index (excluding companies in the mining resources sector) in respect of each measurement period. TSR is broadly the change in the share price over the measurement period plus dividends notionally reinvested in the Company shares.

There are three levels of achievement or 'standards' for each of the performance conditions – the threshold level, the target level and the stretch level:

- the threshold level represents the minimum acceptable level of performance that needs to be achieved in order to receive the specified award for that performance objective. 25% of the available rights will vest if the threshold is achieved.
- the target level represents a satisfactory level relative to past and expected achievements. 50% of the available rights will vest if the target is achieved.

- the stretch level represents a level of clearly outstanding performance and achievement beyond target level. 100% of the available rights will vest if the stretch is achieved.

The measurement period for the purposes of the performance conditions will be in blocks of three financial years, with the first year commencing 1 October 2004. Subsequent annual grants will be made at the commencement of each financial year on 1 October.

At the end of the measurement period, if an eligible employee is still employed by the Company, a calculation will be made by the Company as to the actual amount of the award. The eligible award for each threshold, target and stretch levels will be calculated and added together and then apportioned across the performance objectives in accordance with the applicable weightings. A pro-rata calculation will apply between the threshold and target level as well as between the target and the stretch level. Performance above the stretch level will not generate additional awards. Performance below the threshold level will not generate any award.

The base EPS for each annual rights grant is calculated as NPAT after RPS dividends divided by total number of ordinary shares on issue e.g. EPS base for 2005 after RPS was 10.5 cents per share (EPS figure for 2005 on AGAAP basis). Following the conversion of the RPS on 30 September 2006, the EPS base will be calculated as NPAT divided by the total number of ordinary shares on issue.

The vesting of each grant of rights in respect of EPS for a three year period is subject to achieving the following:

| | |
|---|---|
| **Threshold** | Actual EPS performance over the period results in aggregate EPS that is equivalent to being at or above 4% per annum compound EPS growth over the three year period. |
| **Target** | Actual EPS performance over the period results in aggregate EPS that is equivalent to being at or above 7.5% per annum compound EPS growth over the three year period. |
| **Stretch** | Actual EPS performance over the period results in aggregate EPS that is equivalent to being at or above 12% per annum compound EPS growth over the three year period. |

The TSR commencement base will be established using the same Volume Weighted Average Price ("VWAP") share price for the calculation of the number of rights granted i.e. VWAP for period 1 September – 30 September e.g. 1 September – 30 September 2004 = $12.7751.

The vesting of each grant of rights in respect of each measurement period is as follows:

| **Performance Level** | **TSR** | | **EPS Growth (average pa compound)** | | |
|---|---|---|---|---|---|
| | Standard | Cumulative Portion of Grant of Rights to Vest | Standard | Cumulative Portion of Grant of Rights to Vest | Cumulative Total Vesting of Share Rights in Grant |
| < Threshold | <50th percentile | 0% | <4% | 0% | 0% |
| Threshold | 50th percentile | 12.5% | 4% | 12.5% | 25% |
| Between Threshold & Target | >50th & <60th percentiles | Pro-rata | >4% & <7.5% | Pro-rata | Pro-rata |
| Target | 60th percentile | 25% | 7.5% | 25% | 50% |
| Between Target & Stretch | >60th & <75th percentiles | Pro-rata | >7.5% & <12% | Pro-rata | Pro-rata |
| Stretch & above | 75th percentile + | 50% | 12%+ | 50% | 100% |

If vesting of the grant of rights is not achieved at the end of the measurement period, re-testing will occur at the end of the fourth and fifth years, and improved performance over the four or five year measurement periods will produce additional vesting.

### Performance Rights Holdings Provided as Remuneration

The assessed weighted average fair value at grant date on 1 October 2004 was $9.20. The fair value at grant date was independently determined using Monte Carlo Simulation stock pricing techniques taking into account the GrainCorp share price and dividends, total shareholder returns of the peer group of companies, and the risk-free interest rate for the term of the rights.

The model inputs for rights granted during the year included:

(a) share price at initial grant date: $12.65

(b) expected price volatility of the Company's shares: 21.3%

(c) expected dividend yield: 4.0%

(d) risk-free interest rate: 5.3%

The number of rights over ordinary shares in the Company provided as remuneration to the Directors of GrainCorp Limited or other key management personnel of the consolidated entity, and the shares issues on the exercise of such rights, are set out below.

| Name | Number of Rights Granted During the Year | | Number of Rights Vested During the Year | | Number of Ordinary Shares Issued on Exercise of Rights During the Year | |
|---|---|---|---|---|---|---|
| | **2006**[4] | 2005 | **2006** | 2005 | **2006** | 2005 |
| **Directors of GrainCorp Limited** | | | | | | |
| T.B. Keene | **142,861** | 183,451 | - | - | - | - |
| **Other key management personnel of the Group** | | | | | | |
| S.G.B. Bird | **16,961** | 43,561 | - | - | - | - |
| J. Di Leo[1] | - | 81,862 | - | - | - | - |
| A.N. Johns | **15,681** | 41,096 | - | - | - | - |
| N.P. Hart | **16,001** | 40,274 | - | - | - | - |
| K.J. Lloyd | **16,961** | 43,561 | - | - | - | - |
| S. Tainsh | **16,001** | 41,096 | - | - | - | - |
| A. Single[2] | - | 31,233 | - | - | - | - |
| J. Molenaar[3] | - | - | - | - | - | - |
| J.P. Breeze | **11,841** | 30,411 | - | - | - | - |
| J. de Salis | **13,441** | 34,520 | - | - | - | - |

1 J. Di Leo became Managing Director of Allied Mills on 7 November 2005 and the GrainCorp position of Chief Operating Officer was made redundant on 4 November 2005.

2 A. Single resigned his position at 18 November 2005.

3 J. Molenaar commenced his position on 23 January 2006.

4 Performance rights granted during the year had nil monetary value.

## E. Additional Information for Remuneration Report (unaudited)

### Remuneration and Nominations Committee

The Remuneration and Nominations Committee operates under the authority of the Board and the scope of the Committee's role extends from Non-Executive Directors through executive management and all employees of the Company. Further detail regarding the Remuneration and Nominations Committee can be found in the Corporate Governance Statement.

### Cash Bonuses and Options

Each cash bonus and grant of options included in the tables on pages 39 to 46 represents 100% of the amount due. No amount was forfeited because the person did not meet the service and performance criteria. No part of the bonuses or grants of options are payable in future years.

### Options and Performance Rights Holdings

The number of rights over ordinary shares in the Company held by the Managing Director and each of the key management personnel of the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at the Start of the Year | Number Granted During the Year as Remuneration | % of total Remuneration During the Year[4] | Exercised During the Year | Expired During the Year | Accrued Balance at the End of the Year | Vested and Exercisable at the End of the Year |
|---|---|---|---|---|---|---|---|
| **Directors of GrainCorp Limited** | | | | | | | |
| T.B. Keene | 183,169 | 142,861 | - | - | - | 326,030 | - |
| **Other key management personnel of the Group** | | | | | | | |
| S.G.B. Bird | 43,561 | 16,691 | - | - | - | 60,252 | - |
| J. Di Leo[1] | 81,862 | - | - | - | - | 81,862 | - |
| A.N. Johns | 41,096 | 15,681 | - | - | - | 56,777 | - |
| N.P. Hart | 40,274 | 16,001 | - | - | - | 56,275 | - |
| K.J. Lloyd | 43,561 | 16,961 | - | - | - | 60,522 | - |
| S. Tainsh | 41,096 | 16,001 | - | - | - | 57,097 | - |
| A. Single[2] | 31,233 | - | - | - | - | 31,233 | - |
| J. Molenaar[3] | - | - | - | - | - | - | - |
| J.P. Breeze | 30,411 | 11,841 | - | - | - | 42,252 | - |
| J. de Salis | 34,520 | 13,441 | - | - | - | 47,961 | - |

1 J. Di Leo became Managing Director of Allied Mills on 7 November 2005 and the GrainCorp position of Chief Operating Officer was made redundant on 4 November 2005.
2 A. Single resigned his position at 18 November 2005.
3 J. Molenaar commenced his position on 23 January 2006.
4 Performance rights granted during the year had nil monetary value.

## Occupational Health and Safety

GrainCorp is committed to ensuring compliance with relevant occupational health and safety legislation and on-going improvement of how OHS is managed. The Board requires a best practice approach in these areas, accordingly it has implemented an OHS management systems based on AS4801 and strives to continually improve our day to day performance via the Safety Management Program (SMP). GrainCorp continues to outperform its industry peers and the national average in lost time injury frequency rate performance.

GrainCorp continues to build on OHS reforms that were introduced in 2003 to improve safety performance. This includes progressing from the Foundation level performance of our SMP to the more stringent Progressive level standard and further refining our OHS Management System requirements. These are long term projects that are aimed at sustaining and improving OHS performance. Whilst OHS improvement is the aim, unfortunately GrainCorp was prosecuted and fined once in NSW ($190,000) and once in QLD ($25,000) during the period.

During the period GrainCorp's NSW self-insurer status was suspended. The Company is required to take, and is currently working on, corrective action to ensure that licence conditions can be met prior to 30 June 2007.

## 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.

## Non-audit Services

The Company may decide to employ the external auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 31 of the Full Financial Report.

In accordance with the advice received from the Board Audit Committee, the Board is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board Audit Committee to ensure they do not impact the integrity and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 50.

## 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 (ASIC), relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and both the full and concise financial reports have been rounded off to the nearest thousand dollars in accordance with that Class Order, or in certain cases, to the nearest dollar.

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

**D. C. Taylor**
Chairman
Sydney, 29 November 2006

# Auditor's Independence Declaration

For the year ended 30 September 2006

PricewaterhouseCoopers

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia

www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

## Auditor's Independence Declaration

As lead auditor for the audit of GrainCorp Limited for the year ended 30 September 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of GrainCorp Limited and the entities it controlled during the period.

P.J. Carney

**PJ Carney**
Partner,
**PricewaterhouseCoopers**
Sydney, 29 November 2006

Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated Income Statement

For the year ended 30 September 2006

| | | Consolidated | |
|---|---|---|---|
| | | **2006** | 2005 |
| | Note | **$'000** | $'000 |
| Revenue from continuing operations | 4 | **815,999** | 688,932 |
| Other income | | **17,006** | 13,971 |
| Goods purchased for resale | | **(487,037)** | (398,301) |
| Raw materials and consumables used | | **(27,344)** | (20,878) |
| Employee benefits expense | | **(133,116)** | (125,363) |
| Depreciation and amortisation expense | | **(42,478)** | (49,303) |
| Finance costs – RPS payments | | **(7,800)** | - |
| Finance costs – other charges | | **(23,838)** | (24,233) |
| Repairs and maintenance | | **(16,641)** | (14,514) |
| Other expenses | | **(53,006)** | (53,869) |
| Share of profits/(losses) of associates accounted for using the equity method | | **5,068** | 2,267 |
| **Profit before income tax** | | **46,813** | 18,709 |
| Income tax benefit/ (expense) | | **(15,076)** | (5,229) |
| **Profit from continuing operations** | | **31,737** | 13,480 |
| Profit attributable to minority interest | | **(3)** | (3) |
| **Profit attributable to members of GrainCorp Limited** | | **31,734** | 13,477 |
| | | **Cents** | Cents |
| Earnings per share for profit from continuing operations attributable to ordinary equity holders of the Company | | | |
| Basic earnings per share | 7 | **77.6** | 13.9 |
| Diluted earnings per share | 7 | **76.3** | 13.6 |

The above consolidated income statement should be read in conjunction with the accompanying notes.

# Discussion and Analysis of Consolidated Income Statement

For the year ended 30 September 2006

## Financial Performance Summary

The consolidated entity recorded a profit after tax of $31.7 million for the financial year compared with $13.5 million for the previous year. This year's profit is after $7.8 million in payments to reset preference share holders which were treated as dividends in the 2005 financial year's. If adjusted for comparability with the prior year, the profit of $31.7 million would be $39.5 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased from $92.2 million to $120.9 million. The higher receivals and exports, and cost reduction measures, contributed to the improvement in profit. Net profit also included a number of significant items in the year. These included (all before tax):

### Reset Preference Share Payments

For this financial year, payments of $7.8 million made to reset preference shareholders were shown as a finance cost rather than dividends.

### Unrealised Gains

As the Company does not hedge account for commodities contracts, all unrealised gains or losses at balance date are taken to the income statement. This resulted in an amount of $11.7 million being included as income for the current financial year.

### Revision of Useful Lives

During the year the Company reassessed the useful life of certain items of plant and equipment. The financial effect of this reassessment was to decrease consolidated depreciation expense in the current year by $9 million.

## Storage & Handling

Ex-farm receivals during the year were 10.8 million tonnes (2005: 9.3 million tonnes) with export shipping of 5.3 million tonnes (2005: 4.7 million tonnes). Grain carryover at 30 September 2006 was 4.9 million tonnes, up from 3.3 million tonnes for the previous year.

The segment profit for Storage & Handling was $86.9 million based on revenue of $270.9 million. This compared to the prior year profit of $47.3 million on revenue of $207.8 million. The increase in segment profit was driven by higher receivals and exports along with benefits from significant cost reduction measures.

## Marketing

For the year ended 30 September 2006, Marketing reported a segmented profit of $22.6 million which was 13% higher than the previous years profit of $20.0 million. The increase in profit is as a result of a significant increase in revenue from $381.6 million to $457.8 million. The 20% increase in revenue is due to increased trading volumes, continued growth in market share and favourable trading conditions.

## Depreciation and Amortisation, Interest and Taxation

Depreciation reduced by $6.8 million reflecting the revision of useful lives mentioned above. Interest payments increased by $7.4 million due to the reclassification of dividends paid on reset preference shares as a finance cost. The effective tax rate increased from 27.9% to 32.2% predominantly due to reset preference share dividends now being included in finance costs but remaining non-deductible for tax.

More information on revenue and profit by segment is set out in Note 3. A further review of the operations and results is contained elsewhere in the Annual Report.

# Consolidated Balance Sheet

As at 30 September 2006

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| **Current assets** | | |
| Cash and cash equivalents | **23,577** | 11,506 |
| Receivables | **201,581** | 142,702 |
| Inventories | **134,238** | 53,256 |
| Other financial assets | **4,681** | 12,208 |
| Derivative financial instruments | **1,671** | - |
| | **365,748** | 219,672 |
| Assets classified as held for sale | **898** | - |
| **Total current assets** | **366,646** | 219,672 |
| **Non-current assets** | | |
| Receivables | **29,233** | 31,860 |
| Investments accounted for using the equity method | **72,575** | 67,507 |
| Other financial assets | **2,589** | 261 |
| Property, plant and equipment | **461,458** | 478,061 |
| Deferred tax assets | **17,720** | 19,738 |
| Intangible assets | **17,887** | 13,112 |
| **Total non-current assets** | **601,462** | 610,539 |
| **Total assets** | **968,108** | 830,211 |
| **Current liabilities** | | |
| Payables | **164,011** | 83,434 |
| Borrowings | **139,779** | 64,229 |
| Derivative financial instruments | **13,399** | - |
| Other financial liabilities | **409** | 409 |
| Current tax liabilities | **2,398** | 288 |
| Provisions | **27,839** | 22,727 |
| **Total current liabilities** | **347,835** | 171,087 |
| **Non-current liabilities** | | |
| Borrowings | **188,945** | 241,194 |
| Other financial liabilities | **1,976** | 2,360 |
| Deferred tax liabilities | **17,801** | 12,580 |
| Provisions | **3,400** | 6,277 |
| **Total non-current liabilities** | **212,122** | 262,411 |
| **Total liabilities** | **559,957** | 433,498 |
| **Net assets** | **408,151** | 396,713 |
| **Equity** | | |
| Contributed equity | **226,872** | 219,325 |
| Reserves | **9,810** | 1,277 |
| Retained earnings | **171,381** | 176,026 |
| **Parent entity interest** | **408,063** | 396,628 |
| Minority interest | **88** | 85 |
| **Total equity** | **408,151** | 396,713 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the year ended 30 September 2006

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent | | | | | | Minority interest | Total Equity |
| | Contributed Equity | Reset Preference Shares | Retained Earnings | Capital Reserve | Share Option Reserve | Total | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 October 2004** | **103,459** | **115,690** | **176,889** | **-** | **-** | **396,038** | **82** | **396,120** |
| Issue costs - recognised directly in equity | | (137) | | | | (137) | | (137) |
| Profit for the year | | | 13,477 | | | 13,477 | 3 | 13,480 |
| Total income /expense for the year | - | (137) | 13,477 | - | - | 13,340 | 3 | 13,343 |
| Transactions with equity holders acting in their capacity as equity holders: | | | | | | | | |
| Dividends provided for or paid | | | (14,340) | | | (14,340) | | (14,340) |
| Share-based payments | 313 | | | | 1,277 | 1,590 | | 1,590 |
| **At 30 September 2005** | **103,772** | **115,553** | **176,026** | **-** | **1,277** | **396,628** | **85** | **396,713** |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax | | (107,240) | (13,879) | | | (121,119) | | (121,119) |
| | **103,772** | **8,313** | **162,147** | **-** | **1,277** | **275,509** | **85** | **275,594** |
| Profit for the year | | | 31,734 | | | 31,734 | 3 | 31,737 |
| Transactions with equity holders acting in their capacity as equity holders: | | | | | | | | |
| Transfers | | (8,313) | | 8,313 | | - | | - |
| Reset preference shares converted to ordinary shares | 122,986 | | | 15 | | 123,001 | | 123,001 |
| Dividends provided for or paid | | | (22,500) | | | (22,500) | | (22,500) |
| Share-based payments | 114 | | | | 205 | 319 | | 319 |
| **At 30 September 2006** | **226,872** | **-** | **171,381** | **8,328** | **1,482** | **408,063** | **88** | **408,151** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Discussion and Analysis of Consolidated Balance Sheet and Statement of Changes in Equity

and for the year ended 30 September 2006

For the year ended 30 September 2006, total assets increased by $137.9 million and total liabilities increased by $126.5 million. This led to an increase in net assets of $11.4 million. The main movements in the balance sheet items during the financial year were:

## Assets

- Receivables increased by $56.3 million primarily due to a higher amount paid to growers as Pool advances
- Inventories increased by $81 million due to a higher value of commodities inventory held at year end including an unrealised gain on futures contracts of $24.8 million
- Increase in intangible assets of $4.8 million associated with expenditure during the year on the new stocks system which will be operational in 2008
- Decrease in property, plant and equipment of $16.6 million due to depreciation being higher than capital expenditure during the year
- Increase in equity accounted investments of $5.1 million reflecting a strong performance by Allied Mills in the year.

## Liabilities

- Payables were up by $80.6 million on the prior year primarily associated with Pool advances shown as a matching amount in Receivables and $12.3 million final ordinary share dividend which was declared by the Board before 30 September 2006 and therefore provided
- Borrowings increased by $23.3 million overall due to an increase in funding for commodities inventory of $38.9 million offset by a reduction in net term funding facilities
- Derivative financial instruments increased $13.4 million reflecting an unrealised loss on commodities contracts at year end.

## Equity

- Reset preference shares were converted to ordinary shares at the reset date of 30 September 2006. 1,200,000 reset preference shares were converted to 15,975,683 ordinary shares for a value of $123 million (including a discount of 2.5%).

# Consolidated Cash Flow Statement

For the year ended 30 September 2006

| | | Consolidated | |
|---|---|---|---|
| | | **2006** | 2005 |
| | Note | **$'000** | $'000 |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **882,712** | 777,799 |
| Payments to suppliers and employees | | **(778,420)** | (693,147) |
| | | **104,292** | 84,652 |
| Interest received | | **4,381** | 2,014 |
| Interest paid (includes reset preference share dividends in 2006) | | **(31,769)** | (24,247) |
| Income taxes paid | | **(11,790)** | (10,264) |
| **Net inflow (outflow) from operating activities** | | **65,114** | 52,155 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(24,048)** | (37,346) |
| Payments for computer software | | **(2,938)** | (2,012) |
| Proceeds from sale of property, plant and equipment | | **2,011** | 2,557 |
| Proceeds from sale of investments | | **-** | 3,252 |
| Payments for investment/business | | **(1,193)** | - |
| Dividends received | | **48** | - |
| Deposit bond for pools funding | | **(1,075)** | 699 |
| Loans to related parties | | **-** | (359) |
| Loans repaid by related parties | | **-** | 23,167 |
| **Net inflow (outflow) from investing activities** | | **(27,196)** | (10,042) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **117,500** | 175,200 |
| Repayment of borrowings | | **(172,810)** | (194,297) |
| Reset preference shares issue costs | | **-** | (137) |
| Repayment of convertible notes in subsidiary | | **-** | (9,663) |
| Issue of deposit notes (net) | | **18,169** | - |
| Dividends paid – ordinary shares | 5 | **(10,225)** | (6,540) |
| Dividends paid in 2005 for reset preference shares | | **-** | (7,800) |
| **Net inflow (outflow) from financing activities** | | **(47,366)** | (43,237) |
| **Net increase (decrease) in cash and cash equivalents** | | **(9,448)** | (1,124) |
| Cash and cash equivalents at the beginning of the year | | **11,506** | 12,630 |
| **Cash and cash equivalents at the end of the year** | | **2,058** | 11,506 |

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

## Cash Flows from Operating Activities

For the year ended 30 September 2006, net cash inflow from operating activities was $65.1 million, an increase of $12.9 million from a net inflow of $52.2 million in the previous year. A significant increase in net inflow from receipts/payments of $19.6 million was reduced by an increase in interest payments of $7.5 million. Total interest increased this year due to payments made to reset preference shareholders being reclassified as interest rather than dividends.

## Cash Flows from Investing Activities

The items in the net cash outflow from investing activities of $27.2 million (2005: $10 million) were:

| | $ million |
|---|---|
| Purchase of assets and investments | (28.2) |
| Deposit bond for Pools funding facility | (1.1) |
| Sale of assets and investments | 2.0 |

## Cash Flows from Financing Activities

Net cash outflow from financing activities was $47.4 million (2005: $43.2 million). The primary reasons were:

| | $ million |
|---|---|
| Issue of deposit notes | 18.2 |
| 2005/6 ordinary dividends paid | (10.2) |
| Net retirement of borrowings | (55.3) |

# 1. Summary of Significant Accounting Policies

This concise financial report relates to the consolidated entity consisting of GrainCorp Limited and the entities it controlled at the end of, or during the year ended 30 September 2006. The principal accounting policies adopted have been consistently applied to all the years presented, unless otherwise stated.

## Basis of Preparation

The Full Financial Report on which this concise financial report is based has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

## Statement of Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of GrainCorp Limited comply with IFRS.

## Application of AASB 1 First-time Adoption of Australian Equivalents to International Reporting Standards (AIFRS)

The Full Financial Report on which this concise financial report is based is the first annual GrainCorp Limited financial report to be prepared in accordance with AIFRS. AASB 1 First-time Adoption of Australian Equivalents to International Reporting Standards has been applied in preparing the Full Financial Report.

Until 30 September 2005, the financial statements of GrainCorp Limited were prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing financial statements for the year ended 30 September 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 October 2005 (see Note 2(d)).

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are shown in Note 43 of the Full Financial Report. A summary of this information is provided as follows.

## (1) Impact on Total Equity Reported Under Previous AGAAP

| | 30 September 2005 Consolidated $'000 | 1 October 2004 Consolidated $'000 |
|---|---|---|
| **Total equity under previous AGAAP** | **396,216** | 398,580 |
| Adjustments to retained earnings | | |
| Asset revaluation reserve | **18,430** | 18,430 |
| Share of profits/(losses) of associates accounted for using the equity method | **(6,349)** | (7,144) |
| Make good provisions | **5** | 1 |
| Lease payments | **(275)** | (41) |
| Commodity inventory | **(1,514)** | (3,682) |
| Goodwill amortisation | **656** | - |
| Share-based payments | **(1,590)** | - |
| Deferred tax | **7,974** | 8,406 |
| Adjustments to reserves | | |
| Asset revaluation reserve | **(18,430)** | (18,430) |
| Share-based payments | **1,277** | - |
| Adjustments to equity | | |
| Share-based payments | **313** | - |
| **Total equity under AIFRS** | **396,713** | 396,120 |

### (2) Impact on Profit for the Year Ended 30 September 2005

| | Previous AGAAP | Effect of transition to AIFRS | AIFRS |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Revenue from continuing operations | 699,634 | (10,702) | 688,932 |
| Other income | - | 13,971 | 13,971 |
| Goods purchased for resale | (398,301) | | (398,301) |
| Raw materials and consumables used | (20,878) | | (20,878) |
| Employee benefits expense | (123,773) | (1,590) | (125,363) |
| Depreciation and amortisation expenses | (49,930) | 627 | (49,303) |
| Finance costs | (24,219) | (14) | (24,233) |
| Repairs and maintenance | (14,514) | | (14,514) |
| Other expenses | (52,581) | (1,288) | (53,869) |
| Share of profits / (losses) of associates accounted for using the equity method | 1,472 | 795 | 2,267 |
| Profit before income tax | 16,910 | 1,799 | 18,709 |
| Income tax benefit/ (expense) | (4,797) | (432) | (5,229) |
| Profit from continuing operations | 12,113 | 1,367 | 13,480 |
| Profit attributable to minority interest | (3) | | (3) |
| Profit attributable to members of GrainCorp Limited | 12,110 | 1,367 | 13,477 |

### (3) Impact on Cash Flow Statement for the Year Ended 30 September 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

## 2. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

### (a) Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

*(i) Estimated impairment of goodwill and other assets*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(o) of the Full Financial Report. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer Note 19 of the Full Financial Report for details of these assumptions.

*(ii) Revision of useful lives of plant and equipment*

In accordance with the requirements in AASB 116 Property, Plant & Equipment, the Directors reassessed the useful life of certain items of plant and equipment during the year. The assessment was based on a review by the Company's engineers and took into account expected lives of assets together with forecast capital expenditure and maintenance programs. The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to decrease consolidated depreciation expense in the current year by $9.0 million and by approximately $8.0 to $9.0 million annually for the next seven years, this period being the assets average remaining useful life.

*(iii) Treatment of inoperative sites*

From time to time, the Group decides to close operations at certain sites based on expected receivals in the coming year, or other relevant factors. These sites can become operational in future periods. The carrying value of such sites is considered for impairment annually. The total value of such sites amounts to $22,644,000 (2005: $6,563,000).

Based on historical experience, such sites have consistently achieved sales proceeds in excess of their carrying value. Based on this and other relevant factors, no impairment has been recorded in the current year.

## (b) Correction of Error in Prior Accounting Periods

*(i) Correction of taxation error in the 2004 income tax return*

The Company identified an overstatement of book depreciation that was treated as non-deductible in 2003 and 2004. This had the effect of understating consolidated deferred tax liabilities and overstating consolidated current tax liabilities by $8.3 million as at 30 September 2004. It has been corrected by restating the opening balances for the 2005 comparative period with the amounts described above. The amended tax returns have been confirmed with the ATO and interest of $0.7 million was received by the Company.

## (c) Critical Judgements in Applying the Entity's Accounting Policies

*(i) Fair value where there is no organised market*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Physical positions comprising stocks, forward sales and forward purchases do not have quoted market prices available. Other techniques, such as obtaining bid values from a variety of commodity brokers and trade marketers, are used to determine fair value for these financial instruments. The fair value of interest-rate swap contracts is determined by reference to market values for similar instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

*(ii) Port leases*

Operating leases are principally over port facilities, on terms up to 99 years. Contingent rentals are based on CPI and/or periodic valuation to market value. The majority of leases include options to extend terms. Given the nature of the Company's relationship with port operators it is anticipated that most leases will be continually renewed. Operating leases also apply to offices, storage sites, computer equipment, and railway locomotives and wagons.

Finance leases are principally over port facilities, commencing between 1998 and 1999, and terminating between 2007 and 2012. Contingent rental payments are based on the volume of through-puts generated by the Company. Options exist to renew the leases at minimal rental terms.

*(iii) Ownership interest in Allied Mills*

GrainCorp Limited (GrainCorp) has a 60% equity interest in Allied Mills Australia Pty Limited (Allied), with the other 40% held by Cargill Australia Limited (Cargill). However, GrainCorp's voting rights in Allied are 50%, equal with Cargill.

GrainCorp entered into an agreement with Cargill on 2 October 2002 to establish Allied as a jointly operated Company. The agreement establishes that neither party has control of Allied, due to the existence of 50% voting rights and equal Board representation between the two parties.

Therefore, although GrainCorp owns more than half of the equity interest in Allied, this ownership is not judged to constitute control. Hence the Group applies the concept of equity accounting and does not consolidate this entity.

*(iv) Judgements in providing for claims and disputes*

Provision is made for various claims for losses or damages received from time-to-time in the ordinary course of business. Management estimates the provision based on historical information and its experience in resolving claims.

## (d) Change in Accounting Policy

The Group has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of AIFRS. As at the date of transition to these standards at 1 October 2005, the effect of changes in the accounting policies for financial instruments were as follows:

| | 30 September 2005 $'000 | Adjustment $'000 | 1 October 2005 $'000 |
|---|---|---|---|
| Other financial assets | 12,208 | (782) | 11,426 |
| Derivative financial instruments - assets | - | 2,221 | 2,221 |
| Payables | (89,449) | 3 | (89,446) |
| Borrowings | (58,214) | (122,119) | (180,333) |
| Derivative financial instruments - liabilities | - | (13) | (13) |
| Deferred tax liabilities | (12,580) | (429) | (13,009) |
| **Adjustments to net assets** | | (121,119) | |
| | | | |
| Contributed equity | 219,325 | (107,240) | 112,085 |
| Retained earnings | 176,026 | (13,879) | 162,147 |
| **Adjustment to total equity** | | (121,119) | |

## Reconciliation of Financial Instruments as if AASB 139 was Applied as at 1 October 2005

An explanation of the adjustments is set out below. The transitional provisions will have no effect on future periods:

i. Under AGAAP, the Group did not recognise commodity contracts as derivatives at fair value on the balance sheet, and derivative contracts were not recognised in the financial statements on inception with gains and losses only brought to account when realised. Under AIFRS all derivates are recognised on balance sheet at fair value, with movements to fair value taken to profit or loss.

The Group's commodity futures and option contracts, interest rate swap agreements and foreign exchange contracts do not currently qualify for hedge accounting.

The effect in the consolidated entity is to increase current assets: derivative financial instruments by $1,439,000, decrease current liabilities: payables by $3,000, increase current liabilities: derivative financial instruments by $13,000, and increase retained earnings by $1,429,000. Deferred tax liabilities increased by $429,000.

ii. Under AIFRS reset preference shares were classified as a compound financial instrument with equity and interest bearing liability components from inception, and are now classified as interest bearing liabilities measured at amortised cost as a result of a change in the terms of issue as at 1 October 2005, with the amortisation shown as a borrowing cost in the income statement.

The effect in the consolidated entity is to increase non-current interest bearing liabilities by $122,119,000, decrease contributed equity by $107,240,000 and decrease retained earnings by $14,879,000.

# 3. Segment Information

## Primary Reporting Format – Business Segments

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Storage & Handling | Marketing | Other | Inter-segment Eliminations | Unallocated | Consolidation |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Sales to external customers | 270,901 | 457,803 | 82,914 | | 4,381 | 815,999 |
| Inter-segment sales | 49,939 | 775 | 12,298 | (63,012) | - | - |
| Total sales revenue | 320,840 | 458,578 | 95,212 | (63,012) | 4,381 | 815,999 |
| Share of net profit/(loss) of associates | | | | | 5,068 | 5,068 |
| Other revenue/income | 1,390 | 13,797 | 1,181 | - | 638 | 17,006 |
| Total segment revenue/income | 322,230 | 472,375 | 96,393 | (63,012) | 10,087 | 838,073 |
| Segment result | 86,850 | 22,612 | (7,383) | | | 102,079 |
| Interest expense | | | | | | (31,638) |
| Corporate overheads | | | | | | (23,628) |
| Profit/(loss) from continuing operations before income tax | | | | | | 46,813 |
| Income tax benefit/(expense) | | | | | | (15,076) |
| Profit/(loss) from continuing operations after income tax | | | | | | 31,737 |
| Segment assets | 493,354 | 274,796 | 29,091 | | 170,867 | 968,108 |
| Segment liabilities | 34,050 | 211,231 | 30,004 | | 284,672 | 559,957 |

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Storage & Handling | Marketing | Other | Inter-segment eliminations | Unallocated | Consolidation |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Sales to external customers | 207,784 | 381,568 | 96,204 | | 3,376 | 688,932 |
| Inter-segment sales | 38,241 | - | 10,414 | (48,655) | - | - |
| Total sales revenue | 246,025 | 381,568 | 106,618 | (48,655) | 3,376 | 688,932 |
| Share of net profit of associates | - | - | - | | 2,267 | 2,267 |
| Other revenue/income | 5,987 | 7,202 | - | | 782 | 13,971 |
| Total segment revenue/income | 252,012 | 388,770 | 106,618 | (48,655) | 6,425 | 705,170 |
| Segment result | 47,318 | 19,959 | (2,577) | | 3,816 | 68,516 |
| Interest expense | | | | | | (24,233) |
| Corporate overheads | | | | | | (25,574) |
| Profit from continuing operations before income tax | | | | | | 18,709 |
| Income tax expense | | | | | | (5,229) |
| Profit from continuing operations after income tax | | | | | | 13,480 |
| Segment assets | 498,484 | 139,671 | 39,324 | | 152,732 | 830,211 |
| Segment liabilities | 23,288 | 102,117 | 8,487 | | 299,606 | 433,498 |

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

Storage & 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, fees for transportation of commodities, and the provision of financial services to customers of the GrainCorp group.

(b) Inter-segment pricing is on an "arm's length" basis and is eliminated on consolidation.

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

## 4. Revenue

| | Consolidated 2006 $'000 | 2005 $'000 |
|---|---|---|
| **Sales Revenue** | | |
| Sale of goods | **541,221** | 459,259 |
| Services | **269,196** | 224,817 |
| Other revenue | **5,582** | 4,856 |
| **Total revenue** | **815,999** | 688,932 |

## 5. Dividends

The following fully franked dividends (based on tax paid at 30%) have been provided for or paid to shareholders during the year:

| | | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | Date Paid | Cents per Share | Total amount $'000 | Cents per Share | Total Amount $'000 |
| **Ordinary shares** | | | | | |
| Final for previous year | 20 December 2005 | **5** | **2,045** | 14 | 5,722 |
| Interim dividend | 3 July 2006 | **20** | **8,180** | 2 | 818 |
| Final dividend | 27 October 2006 | **30** | **12,275** | - | - |
| | | | **22,500** | | 6,540 |
| **Reset preference shares (RPS)** | | | | | |
| Interim dividend | 31 March 2006 | **324.1** | **3,889** | 322.3 | 3,868 |
| Final dividend | 29 September 2006 | **325.9** | **3,911** | 327.7 | 3,932 |
| | | | **7,800** | | 7,800 |
| | | | **30,300** | | 14,340 |

Dividends on RPS were classified as interest expense from 1 October 2005, but continued to be fully franked. Fully franked RPS dividends of $7,800,000 were paid in the year ended 30 September 2006.

The Directors approved the payment of a final fully franked ordinary dividend of 30 cents per fully paid share ($12.3 million) which was paid on 27 October 2006 out of consolidated retained profits at 30 September 2006. This has been provided for in full as at 30 September 2006.

The ordinary share record date for this dividend was set at 29 September 2006, prior to the conversion of the RPS dividends.

The franked portion of these recommended dividends will be paid out of existing franking credits or out of franking credits arising from the payment of income tax for the year ended 30 September 2006.

## 6. Events Occurring after the Balance Sheet Date

### Dividend Reinvestment Plan (DRP)

The DRP, as approved by shareholders at the AGM in 2004, was activated for the October 2006 dividend payment. The issue price for the issue of shares under the DRP was set at $7.66 (including a discount of 2.5%) and was determined by the weighted average price for the business days between the ex-dividend date of 25 September 2006 and the record date of 29 September 2006. Subsequent to period end, 250,997 shares were issued for a value of $1,924,964.

### Share Buy Back

On 11 September 2006, GrainCorp announced an on-market buy back of its ordinary issued shares, for up to 5% of the shares on issue before 30 September 2006. Commencing on 3 October, the buy back is expected to be completed within 12 months. At the date of this report, 83,000 shares have been acquired for a total consideration of $599,371.

Other than reported above, no other matter or circumstance has arisen since 30 September 2006 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.

## 7. Earnings per Share

| | Consolidated | |
|---|---|---|
| | **2006 Cents** | **2005 Cents** |
| Basic earnings per share | **77.6** | 13.9 |
| Diluted earnings per share | **76.3** | 13.6 |
| Basic earnings per share before reset preference share dividends | **77.6** | 33.0 |
| Diluted earnings per share before reset preference share dividends | **76.3** | 32.3 |
| | Number of ordinary shares | |
| Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share. | **40,904,644** | 40,881,426 |
| Adjustment for calculation of diluted earnings per share: | | |
| Performance rights | **671,546** | 808,595 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in the calculation of diluted earnings per share. | **41,576,190** | 41,690,021 |

## 7. Earnings per Share continued

| | Consolidated 2006 $'000 | 2005 $'000 |
|---|---|---|
| Reconciliation of earnings used in calculating earnings per share | | |
| Basic and diluted earnings per ordinary share: | | |
| Net profit | **31,737** | 13,480 |
| Net profit attributable to outside equity interest | **(3)** | (3) |
| Earnings used in calculating basic and diluted earnings per ordinary share, before reset preference share dividends | **31,734** | 13,477 |
| Dividends paid – reset preference shares | **-** | (7,800) |
| Earnings used in calculating basic and diluted earnings per ordinary share | **31,734** | 5,677 |

### Information concerning the classification of securities

**(a) Performance Rights**

Performance Rights first granted in 2005 under the GrainCorp Performance Rights Share Plan, are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in the Remuneration Report and Note 41 of the Full Financial Report.

**(b) Reset Preference Shares**

Reset Preference Shares (RPS) were issued in October 2003, with a first reset date of 30 September 2006. The RPS were not ordinary or potential ordinary shares and were not included in the determination of basic and diluted earnings per share as at 30 September 2005.

On 30 September 2006, the first reset date, the RPS were converted to ordinary shares, and as such, have been included in the weighted average number of ordinary shares for the determination of basic and diluted earnings per share as at 30 September 2006.

# Directors' Declaration

For the year ended 30 September 2006

The Directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 September 2006 as set out on pages 51 to 67 complies with Accounting Standard AASB 1039: Concise Financial Reports, and the audited remuneration disclosures set out on pages 36 to 46 of the Directors' report comply with Accounting Standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The concise financial report is an extract from the Full Financial Report for the year ended 30 September 2006. The financial statements and specific disclosures included in the concise financial report have been derived from the Full Financial Report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of GrainCorp Limited and its subsidiaries as the Full Financial Report which can be accessed via the internet on the GrainCorp website at **www.graincorp.com.au** or is available on request.

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

**D. C Taylor**
Chairman
Sydney, 29 November, 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757
Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

# Independent audit report to the members of GrainCorp Limited

## Audit opinion

In our opinion:

- the concise financial report of GrainCorp Limited for the year ended 30 September 2006 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*; and
- The audited remuneration disclosures that are contained on pages 36 to 46 of the Directors' report, comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations* 2001.

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

## Scope

### The concise financial report and Directors' responsibility

The concise financial report comprises the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, notes to the financial statements, and the Directors' declaration for GrainCorp Limited (the Company) for the year ended 30 September 2006.

The Company has disclosed information about the remuneration of Directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 36 to 46 of the Directors' report, as permitted by the *Corporations Regualtions* 2001.

The Directors of the Company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*. The Directors are also responsible for the remuneration disclosures contained in the Directors' report.

## Audit approach

We conducted an independent audit of the concise financial report in order to express an opinion on it 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 concise 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

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than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website **http://www.pwc.com/au/financialstatementaudit**

We also performed an independent audit of the Full Financial Report of the Company for the financial year ended 30 September 2006. Our audit report on the Full Financial Report was signed on 29 November 2006, and was not subject to any qualification.

In conducting our audit of the concise financial report, we performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations* 2001.

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

- testing that the information included in the concise financial report is consistent with the information in the Full Financial Report, and
- examining, on a test basis, information to provide evidence supporting the amounts, and other disclosures in the concise financial report which were not directly derived from the Full Financial Report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

## 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

**PJ Carney**
Partner
Sydney, 29 November 2006

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