



Company announcement

GrainCorp Limited ABN 60 057 186 035

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Announcements
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PUBLIC ANNOUNCEMENT

Contents for immediate release:

Please find the following the Chairman's address to the Annual General Meeting

A handwritten signature in blue ink, appearing to read "Betty Ivanoff".

Betty Ivanoff
Company Secretary

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**ANNUAL GENERAL MEETING GRAINCORP LIMITED
SYDNEY, 25 FEBRUARY 2009
ADDRESS BY THE CHAIRMAN, MR DON TAYLOR**

2007-08 results – second successive loss due to drought

In 2008 GrainCorp recorded a second successive post tax loss of \$19.9 million, due again to the continued severe drought conditions across eastern Australia.

A combination of winter crop receivals of 3.7 million tonnes and record low carry in stocks of 1.2 million tonnes – in turn the legacy of the prior year's drought – and therefore minimal quantities of grain flowing into our system and through to our export terminals, made a loss inevitable.

Given the nature of our business, the weather, more than any other factor, is the dominant influence on our results.

However, there were bright spots in an otherwise disappointing year. The 2007-08 summer crop of 2.1m tonnes delivered in Queensland and northern New South Wales was a record. It demonstrates the potential of the farming community to produce a significant grain harvest when seasonal conditions are favourable. Unfortunately, this grain arrived in our system too late to generate full financial benefits in the 2007-08 year, but has boosted the 2008 – 09 carry in position, thus providing a better platform for the current year.

We also completed the integration of Hunter Grain, providing counter cyclical business demand (higher in drought conditions), improving the utilisation of some port terminals with imported meals, and enhancing our exposure to a number of major local grain customers, especially in the poultry sector.

I want to commend our management for its significant efforts in coping with the drought and minimising our cost exposure. Although masked so far by the impact of drought, we have implemented a number of substantial business improvement initiatives, such as Project Shine – designed to better align fixed costs with receivals – port terminal operations, direct exporting of wheat and securing the rail supply chain. When improved seasonal conditions return, the benefits of these initiatives will be more clearly apparent.

Current financial year – return to profitability

Turning to the current year, winter crop receivals for the season recently completed were 7.8 million tonnes and this number continues to increase slowly but steadily with the receival of grain from on farm storage. Yet again, adverse seasonal conditions constrained harvests in southern New South Wales and Victoria, but crops in the north were much better, even if many farmers suffered the heartache of rain-induced yield and quality downgrades during harvest.

Similarly, the summer crop, which is currently being harvested, shows promise with over 460,000 tonnes received to date, which supports our forecast total grain receivals of between 8.5-9.5 million tonnes this financial year.

It is therefore with considerable pleasure that I advise that GrainCorp is expected to return to profitability in 2008-09, with an expected after tax turn around of over \$40 million. Mark

Irwin will provide a detailed analysis of the past year's business performance, company operational initiatives, and an earnings guidance during his presentation shortly.

Agriculture's resilience

The past year has been a unique experience for all of us. From a position just over twelve months ago where everyone accepted that the China-led boom would continue for another 50 years or more, we now receive on television and in the print media daily updates of the problems besetting global financial systems, most economies and almost every company in one way or another.

Closer to home, GrainCorp, together with its farmer suppliers and end use customers, has been buffeted along with everyone else. Whether it was the doubling in prices of major input costs – especially fertiliser, chemicals and fuel – during 2008, followed by their material decline early this year, wild swings in currencies, the movement in and out of commodity markets by hedge funds and others, 2008-09 has tested the resolve of all of us.

Fortunately, I believe that agriculture, and in particular, companies like GrainCorp which are not directly impacted by agricultural commodity prices, and in turn, Allied Mills, our 60% owned flour and flour-based product producer, are well placed in this current environment.

The extensive discussion over the past couple of years about the so-called soft commodity boom reflects underlying supply and demand developments – the growing population, the desire of people everywhere to improve the quality of their diets, threats to agricultural land from urban encroachment, mandatory programs diverting potential food production into fuel production, and so on.

These factors remain, even if their immediate impact may have been swamped by the recent economic tsunami. Moreover, Australia is well placed geographically to the fastest growing regions of Asia and the Indian sub continent to be a preferred and reliable supplier of quality foods and fibres.

Similarly, we have achieved important improvements in the operating environment of our company: the long overdue abolition of monopoly export marketing arrangements for wheat, and the termination of the foundation share arrangements within GrainCorp. Updating GrainCorp's constitution post the foundation share is an item of business for this meeting.

New export wheat marketing arrangements

The removal of AWB's export monopoly for bulk wheat has opened new doors for GrainCorp to firstly provide new services to new customers and generate additional earnings from these services, and secondly manage a more efficient grain supply chain that benefits both grain producers and buyers.

I am pleased to announce that GrainCorp will benefit in this financial year from the wheat export initiatives it has taken, generating additional earnings from the provision of supply chain and marketing products to both overseas grain buyers (such as our new durum alliance with CHS) and other grain exporters.

GrainCorp secured a bulk wheat export licence in the second half of 2008 and exported its first wheat in December 2008. We have been well supported by our international customers and with their support we will continue to grow our export wheat business.

GrainCorp is required to provide open access at its export terminals. Of course, it has no difficulty in doing so because its interests are served by maximising the utilisation of these facilities. Since the removal of AWB's monopoly powers, wheat has been shipped through GrainCorp's export terminals by several exporters, apart from the export tonnes sold by GrainCorp Marketing.

It will take some time for a new equilibrium to be established in bulk wheat export marketing arrangements. There have been some 'teething problems' with the introduction of the new arrangements, primarily export port availability and rail infrastructure, an issue I will address below. Overall, however, we believe the grain industry has adapted more quickly than many had predicted and over time will be stronger and more flexible as a result.

These developments are an encouraging sign of grower determination and capacity to take control of their own destiny, rather than leaving responsibility to the whim of a statutory monopoly marketing agency.

This was demonstrated in the recent harvest where growers increasingly used warehousing at our silos, rather than pools, to market their grain over a longer period of time. This will facilitate the emergence of a year round market for wheat, replacing a more intense scramble to commit most wheat at harvest. Growers will benefit from these developments.

GrainCorp's rail initiatives

An important dimension of the new order for export wheat marketing is rail. GrainCorp is committed to working with Governments and rail operators to provide a sustainable and efficient rail service from its country facilities on both the main and branch rail lines to export ports.

As part of its post single desk preparation, GrainCorp entered into a five year 'take or pay' contract for eight mainline trains in NSW and Victoria with Asciano, the parent company of Pacific National.

This contract means that we now manage the haulage of much of our grain to export terminals, extending the supply chain services we offer to our customers. It supports our grain receival site infrastructure, enabling us to become the lowest cost provider of transport solutions in NSW and Victoria.

Rail is a challenge due to the historic lack of investment in capacity and general maintenance upkeep. With total rail capacity available to the grain industry in New South Wales and Victoria having declined by more than 50 percent over the past 4 years, it means that our New South Wales trains have been fully committed. Given the likely export schedule ahead, we expect the high utilisation of the New South Wales trains to continue throughout the remainder of the financial year.

However, we all need to understand that it is just not possible for past peak demands for rail to be met, or that GrainCorp alone can alleviate what has become a major logistical bottleneck. It is physically impossible with the reduced rail freight capacity to export an

entire season's export crop in a 3 – 4 month window. Instead, we must adapt the pace and timing of grain exports over the full year to maximise the utilisation of the rail infrastructure that exists. Increasing rail capacity for a three month surge is not economically feasible. To do so would create underutilised capacity for much of the year and impose higher costs on all parties – in short, a less competitive export grain sector.

GrainCorp finances are in place

One of the consequences of the global financial crisis, including the retreat of some foreign banks from Australia, is that finance has been harder to secure. In addition, higher risk margins have offset much of the interest rate decreases resulting from the Reserve Bank's conduct of monetary policy.

GrainCorp's recent financial performance has made its task of securing financial requirements more challenging. However, it is pleasing to report that the company has been well supported by its banks.

This has been helped by the banks themselves being well prepared for different financing requirements post the single desk – work that received little publicity and I suspect has been largely unrecognised by the wider agricultural community.

In GrainCorp's case, it has also been helped by an approach over many years of open, transparent dialogue with our banks so that there are no surprises.

As a result, we have been able to secure the finance we have required to operate our business over the past twelve months, such as seasonal pools, our grain trading business, and the development of a new warehouse cash flow product.

GrainCorp's long term debt is secured until 2011, a sign of both the confidence of the banks in the grain sector and GrainCorp as a major player in it.

Continuous Improvement

GrainCorp's share price performance over the past 12 months has been particularly disappointing. The global financial crisis has greatly reduced the liquidity of virtually all companies outside the ASX 100, and GrainCorp has suffered along with others in this respect. In some instances, investors have been forced to sell our shares because of pressures elsewhere.

GrainCorp's continuing focus is to examine all facets of our business, to reduce costs where we can, to convert as many fixed costs to variable costs, to review the future profitability and relevance of all our business units, to improve the resilience of the company to cope with weather-induced stress, and to seek alternative investments which both improve profitability and diversify earnings streams.

For example, in our Allied Mills business we are investing in value adding activities, such as the recent purchase of a frozen doughnut manufacturing plant, as well as being a direct supplier of bakery pre-mixes to Woolworths and Coles. In addition, Allied's new \$97 million state-of-the-art mill at Picton is now complete and operating well.

Further industry consolidation may be part of the picture – and I have spoken of this before. Such consolidation can only occur on an agreed basis and GrainCorp has, and continues to be, a willing participant.

But rather than wait for this to occur, GrainCorp's focus is to improve the competitiveness, efficiency and profitability of its business so that it is as well placed as it can be to take advantage of any opportunity that arises.

There are a number of core areas that will underpin the robustness of our business and position our company for growth, and these can be summarised as follows:

- First, we are a supply chain company in the agricultural sector. We see a number of good opportunities to boost our growth and expand our services.
- Second, we can further grow our domestic market share through increased engagement with the domestic grain market. This is a competitive market given the number of players and while there is no silver bullet, or single solution, we believe any improved market share is achievable.
- Third, we have been very pleased with our success in developing bulk wheat export markets. We plan to increase our engagement with overseas customers for Australian wheat.
- Finally, we are committed to increasing our service offering for all customers and to increase our productivity and responsiveness. To this end, we use the phrase "Business Excellence" to explain internal initiatives to reposition our business, ensuring we have the right people, processes and systems to improve competitiveness and reduce costs. At all times we are motivated by enhancing customer focus. We have made good progress and have a number of inter-related initiatives underway.

Conclusion

In conclusion, it is becoming a cliché to say that the world is in uncharted waters economically. It is therefore appropriate to reiterate that GrainCorp and its shareholders have already endured their equivalent of Armageddon as a result of two years of drought-induced financial losses.

We are, of course, still subject to the vagaries of the weather but at this point, with a solid return to profitability in 2008–09 confidentially expected, and very encouraging rain recently received in the Northern portion of our footprint, setting up the prospect of a good winter crop this year, I am cautiously optimistic that our performance is poised to improve. If it does, GrainCorp will be in a good position compared with most other publicly listed companies.