CEO's Presentation
GrainCorp Limited Annual General Meeting

19 February 2020

Ladies and Gentlemen.

I would like to start off with one of our highest priorities within our organisation – and that's the Health & Safety of our people. What we can do to keep our employees safe, our contractors safe, and our customers safe.

Our key safety metrics improved considerably in fiscal year 2019; our Recordable Injury Frequency Rate (RIFR) dropped down to 7.7, and our Lost Time Injury Frequency Rate (LTIFR) dropped to 2.2.

This is a great outcome for our teams and the result of an intense focus on critical risk management, injury reduction and process safety management. We are really proud of what our employees have accomplished.

On the Environmental side, we continued to manage our energy and water usage, while also exploring options to reduce our carbon intensity. More information on our environmental and safety performance can be found in our 2019 Sustainability Report, which is available on our website.

I will now talk about our financial results for FY19.

The headline numbers we reported are in the table. There was clearly a significant decline year on year, with underlying EBITDA of $69 million and an underlying net loss after tax of $82 million. On a statutory basis, we reported a net loss after tax of $113 million.

Our Grains business saw a substantial decline in earnings, primarily reflecting the drought in eastern Australia and its impact on grain production. This led to low grain receivals, weaker utilisation of our rail contracts and lower export volumes. We also experienced an unexpected disruption to international grain trade flows which caused a large and rapid decline in Western Australia feed grain values. This led to a significant, adverse impact to our commodity positions.

The severity of the drought led to large grain deficits across much of Queensland and New South Wales; and in response to this lack of supply, we reversed our port supply chains and trans-shipped over two million tonnes of grain from other states to satisfy eastern Australian demand. Improving the utilisation of our ports, whether it is through the importation of commodities, or the export of non-grain products like woodchips, is important for our business.

It's also worth pointing out that our existing rail contracts expired at the end of FY19 and we now have new rail contracts in place for FY20. The contracts are structured to provide much greater flexibility to manage transportation costs through the crop cycle, and this is important, particularly in light of increased trans-shipment requirements and the ongoing drought.

Our Oils business had a mixed year, with oilseed crush margins down due to low Australian canola supply caused by the drought. This, in turn, elevated the underlying price of canola and meant we incurred additional freight costs to transport canola seed longer distances to our crush plants.

Malt delivered another good result, which was a result of strong customer demand, high capacity utilisation and operational efficiencies.

Similar to last year, there was a strong skew in Malt earnings to the second half, reflecting increased beer consumption in the northern hemisphere in the summer months. The first half was adversely impacted by increased barley freight costs in eastern Australia, arising from the drought, and weather issues in Alberta, Canada, which temporarily restricted some of our malt deliveries.

As Graham has discussed already, the Board undertook a portfolio review during the year and there were three major outcomes from the review, including the proposed Demerger, which I will discuss later.

Turning now to the outlook for each of our businesses.

I will start with Grains and Oils – or the combined 'New GrainCorp' as we sometimes refer to it.

We have experienced another below-average winter crop in 2019-20, with the latest ABARES' production estimate showing a total eastern Australian winter crop of 11.4 million tonnes. Grain production was again heavily weighted to Victoria, which had much stronger volumes than New South Wales and Queensland.

For the second year running, there was minimal exportable surplus in eastern Australia as the domestic market secured supply.

We are continuing to see grain trans-shipped from other states to eastern Australia in order to satisfy domestic demand.

On the canola side, we have seen slightly stronger national production this year compared to last year, which has been beneficial for oilseed crushers and refiners.

The grain industry, and the farming sector more broadly, received a very welcome boost during the past week, with some meaningful rain across much of the eastern seaboard. While it is too early to call a break in the drought, it is an encouraging sign after the prolonged dry spell we have just experienced.

For the FY20 outlook for GrainCorp: year-to-date, we've received about 3.7 million tonnes into our network. That is primarily coming out of Victoria and southern New South Wales. As I mentioned earlier, we expect minimal grain exports again this year. However, we will see further importation of grains coming from Western Australia and Victoria, as well as a flow of grain south to north on the eastern seaboard.

Our new rail contracts have started this year, and this will provide GrainCorp with much greater flexibility to align volumes to rail usage. Importantly, the contracts comprise a substantial reduction in fixed costs.

We are continuing to diversify origination from Canada and Ukraine, which has been a benefit for our international customers while also allowing us to strengthen our relationships with them.

We have seen a good improvement in crush margins compared to last year and expect this to continue through FY20. Having a bigger canola supply obviously helps; but we have also seen an improvement in oil and meal values, which have both been beneficial.

As Graham mentioned earlier, based on ABARES' 2019/20 total winter crop production estimate of 11.44mmt (published on 18 February 2020), and subject to the completion of our submission to White Rock Insurance, a subsidiary of Aon, we expect to receive a total gross payment of approximately $57.9 million in FY20.

The value of the Crop Production Contract is evident in a year like this; and it will be important over the longer term in helping to smooth GrainCorp's cash flows through the cycle.

Turning to the outlook for Malt. The US craft beer market continued to grow in 2018, at 4%, which is a lower rate compared to previous years however still representing good growth and on a much bigger base than five years ago. In addition, some US states are under-penetrated with respect to craft beer production and this offers good growth opportunities for our Malt business.

Craft beer is also starting to grow strongly in emerging markets like Latin America and Asia – representing a further opportunity for our Malt business in different geographies.

The Scotch whisky industry is experiencing continued good consumer demand and is high value. Single malt whiskies in particular, a product category we concentrate on, is showing the majority of growth in this area.

When we look ahead at the remainder of FY20, we are very confident of continued high capacity utilisation of our malt plants. A good portion of our production sits under long-term agreements and we continue to see good, solid demand from our larger customers. The specialty malt area also continues to grow, with product customisation and innovation supporting this demand.

A key focus of our Malt business in FY20 is the optimisation of our warehousing and distribution network. Having grown the network considerably in recent years, we are now in a position to optimise our inventory management systems and processes, our logistics and our customer service. We will also continue to explore opportunities to expand the warehouse and distribution network geographically.

Turning to the Portfolio Review, as Graham has discussed already, the Board undertook a portfolio review during the year and there were three major outcomes from the review:

- we sold our Australian Bulk Liquid Terminals business to ANZ Terminals for $333 million, which includes a deferred component of $19 million. The transaction completed on 31 December and was important in strengthening the Company's balance sheet in preparation for the proposed Demerger;
- we combined our Grains and Oils businesses to create one integrated domestic and international grain handling, storage, trading and processing business; and
- we announced the proposed Demerger of our international malting business, United Malt.

I want to take this opportunity to emphasise one key aspect of the Demerger – and that is the capital structures of the two companies to prepare them for separation. From the outset of this process, the Board has been intently focused on ensuring both Companies are set up with the right capital structure and that both Companies have the financial strength to handle the variability that is inherent in our industries.

This was particularly important for GrainCorp, considering the large fluctuations we see in grain production year-to-year and the impact this has on GrainCorp's cash flows.

The Board has taken three significant steps to support this objective. The first was ensuring GrainCorp starts operating as an independent company with minimal core debt ($82 million); the second was putting in place the Crop Production Contract, which protects cash flows in poor production years; and the third was retaining a 10% minority interest in United Malt post Demerger. This holding is purely to provide additional balance sheet resources and financing flexibility.

On the Malt side, United Malt has been set up with a target gearing range of 2.0 – 2.5x EBITDA, which we believe is appropriate when considering the strength of its cash flow generation and financial profile.

Lastly, I'd like to acknowledge the collective efforts and contribution of the many GrainCorp employees who have worked tirelessly over the past two years in one of the worst droughts on record and during extreme weather events. Our people are very connected to their local communities and they go above and beyond to support their neighbours when in need; as we saw during the recent bushfires where many of our people took time off to fight the fires and protect their neighbours' and their own properties.

It's been a big year for everyone at GrainCorp as we've prepared the Group for the Demerger of United Malt, and I would like to thank each and every person for their hard work and effort during the year.

With that, I would like to thank you all for being here today and look forward to seeing you again on 16 March 2020.

Mark Palmquist

CEO

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