



17 February 2016

GrainCorp joins Australian Grains Champion consortium

GrainCorp today announces it has agreed to join a consortium led by Australian Grains Champion ("AGC") and including H.R.L. Morrison & Co, acting on behalf of underlying Australian superannuation investors ("the Consortium"). Australian Grains Champion is proposing the commercialisation and potential listing of Co-operative Bulk Handling Ltd ("CBH") ("the Proposal").

Full details of the Proposal are available at the website: www.australiangrainschampion.com.au

Australian Grains Champion is a Western Australian grower-led initiative. Australian Grains Champion approached GrainCorp, inviting GrainCorp to support its Proposal as a cornerstone investor. Australian Grains Champion is presenting the Proposal to the Board of CBH with a request that it be put to CBH's grower members.

The Proposal also provides a unique opportunity for GrainCorp to invest in CBH through its investment in Australian Grains Champion, and a pathway for GrainCorp to obtain a future equity interest in a publicly listed Australian Grains Champion as holding company of CBH. This investment creates substantial potential to enhance the alignment and strategic relationship between GrainCorp and CBH.

GrainCorp Managing Director and CEO Mr Mark Palmquist said:

"We see enormous strategic merit in the Australian Grains Champion Proposal. Our willingness to support it is based on a view that the investment presents a compelling opportunity for Western Australian growers, while also delivering opportunity for CBH, GrainCorp shareholders and Australian agriculture more broadly.

"Importantly, the decision to proceed is ultimately one for Western Australian growers and we respect that process.

"Our proposed investment is a good strategic fit for GrainCorp, bearing in mind CBH's complementary assets and capabilities. CBH is an excellent business with a strong position in Australian agriculture. GrainCorp is also a significant Australian agribusiness and, if we can support the growth of Australian agriculture, then we feel a responsibility to participate. We believe we offer significant value to CBH through our experience as a listed agribusiness, our complementary operations and grain processing capabilities.

"Our participation in this Proposal potentially gives us an opportunity to contribute to CBH's growth and success in a meaningful way in the future."

Funding, timing and other transaction details

It is intended that the Proposal will involve the acquisition by Australian Grains Champion of 100 per cent of the shares in CBH, subsequent to a successful CBH grower member vote, in exchange for:

- shares in Australian Grains Champion, such that CBH grower members and existing AGC shareholders would own 100 per cent of AGC's shares before any initial public offering;
- a \$600 million cash payment to grower members of CBH, paid upon satisfaction of the Proposal Conditions ("Upfront Cash"); and
- a commitment to progress a listing of CBH.

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To fund the Upfront Cash, Australian Grains Champion has agreed (subject to satisfaction of the Proposal Conditions) to issue \$600 million worth of AGC Notes (the "AGC Notes") of which:

- H.R.L. Morrison & Co investing on behalf of underlying Australian superannuation investors has agreed to subscribe for \$300 million of AGC Notes Series I; and
- GrainCorp has agreed to subscribe for \$300 million of AGC Notes Series II.

The key terms of GrainCorp's AGC Notes Series II are expected to include the following:

- maturity date set five years from the issue date;
- starting cash coupon rate of BBSW + 400bps per annum (currently representing an annual rate of approximately 6% per annum), paid quarterly; and
- warrants, which will entitle GrainCorp to purchase, for cash, up to \$300 million worth of AGC shares at a price referable to the prevailing market value at the time of exercise.¹

Key details of the AGC Notes Series II which GrainCorp has agreed to subscribe for are set out in the Schedule to this announcement.

In addition, AGC will issue GrainCorp an option to subscribe for an additional \$300 million worth of new AGC shares ("GrainCorp Call Option") in exchange for a cash payment. The GrainCorp Call Option is exercisable at any time for a period of 5 years from the date of issue at a price that is referable to the market price of AGC shares at the time of exercise.

Key details of the GrainCorp Call Option are set out in the Schedule to this announcement.

GrainCorp will also be entitled to appoint a director to the AGC Board.

GrainCorp is not required to fund its AGC Notes until all of the Proposal Conditions are satisfied. The company anticipates that satisfying the Proposal Conditions (including obtaining the approval of CBH grower members) is likely to take at least six to 12 months.

The GrainCorp Call Option would not be funded until exercised which, if it occurs, would be some time after satisfaction of the above conditions.

Further, GrainCorp notes that:

- the cash coupon payable on the AGC Notes will assist with options for financing GrainCorp's investment;
- the five year term of the AGC Notes and the GrainCorp Call Option provides significant future flexibility for GrainCorp in respect of its investment;
- if GrainCorp was to exercise the warrants attached to its AGC Notes and/or exercise its Call Option, it is likely that GrainCorp would be a significant minority investor in CBH, creating a strategic alliance between Australia's two most substantial grain businesses; and
- it currently has no intention of raising equity in order to fund its future potential investment in the AGC Notes having regard to the range of financing alternatives available to it.

Australian Grains Champion's Proposal and GrainCorp's participation is subject to certain conditions ("Proposal Conditions"), including:

- satisfactory completion of due diligence;

¹ The warrants are to remain exercisable by GrainCorp in exchange for a cash payment for a term of five years even if the AGC Notes Series II have been repaid early or transferred to another party.

- approval of 75 per cent of CBH grower members voting in favour of the Proposal; and
- receipt of necessary regulatory approvals.

Advisers

GrainCorp is being advised in relation to the Proposal by Macquarie Capital and Gilbert+Tobin.

FURTHER INFORMATION

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SCHEDULE

TERMS OF AGC NOTES SERIES II:

Terms	AGC Notes Series II
Total subscription amount:	A\$300m
Margin:	400bps (subject to step ups if an IPO of AGC has not occurred within a certain period)
Term:	5 years
Conversion rights:	Detachable warrants equal to the total subscription amount which entitle GrainCorp to purchase shares in AGC at the following price: <ul style="list-style-type: none">• at a date within 12 months of IPO, 50% based on the IPO price and 50% based on 30-day VWAP at the date the warrants are exercised• at a date 12 months or more after IPO, 5% discount to the 30-day VWAP at the date the warrants are exercised
Other terms:	Other terms of the AGC Notes Series II include: <ul style="list-style-type: none">• financial covenants• no transfer restrictions• other customary undertakings, covenants and provisions found in similar financing arrangements

TERMS OF GRAINCORP CALL OPTION:

Terms	GrainCorp Call Option
Total call option amount:	A\$300m
Term:	5 years
Option:	Option to purchase shares in AGC at the following price: <ul style="list-style-type: none">• at a date within 12 months of IPO, 50% based on the IPO price and 50% based on 30-day VWAP at the date the warrants are exercised• at a date 12 months or more after IPO, 5% discount to the 30-day VWAP at the date the warrants are exercised
Other terms:	The option is independent of the AGC Notes Series II