



Company/ASX Code	GrainCorp Limited (GNC)
AGM date	Wednesday, 20 February, 2019
Time and location	10am Hilton Hotel, George Street, Sydney
Registry	Link Market Services Limited
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Elizabeth Fish, assisted by Helen Manning
Pre AGM Meeting?	Yes, with Chair Graham Bradley

A Challenging year for GrainCorp

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

The Group statutory result at \$70.5m is down on last year by 60% due to the material reduction in eastern Australian grain production and consequent impact on throughput volumes and exports. The oils business has suffered from the small crop size, resulting in tighter margins and the grain crop in northern New South Wales was so poor that some growers cut their crop and sold it as hay. The malt business continues to benefit from the sale of malt and other brewing ingredients to distillers and craft breweries. At the pre-AGM meeting the Chair commented on increasingly high cost of power for the crushing mills. He thought grain suppliers would be happy with the acceleration of payment terms that took place in FY18, resulting in growers receiving payment within 3 days of delivery.

At the pre-AGM meeting Mr Bradley said how happy he was with the performance of the company's 2017 acquisition Cryer Malt, although the ASA noted that acquisition added an additional \$11.8m to intangible assets in 2018.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	70.5	125.2	30.9	32.1
UPAT (\$m)	70.5	142.0	53.0	32.0
Share price (\$)	7.90	8.16	7.85	9.05
Dividend (cents)	16.0	30.0	11.0	10.0
TSR (%)	-1.2	8.0	-12.0	6.9
EPS (cents)	30.8	54.7	13.5	14.0
CEO total remuneration, actual (\$m)	2.361	2.846	2.532	2.522

For 2018, the CEO's total actual remuneration was 27.5 times the annualised Australian Full Time Adult Average Weekly Total Earnings of \$1,653.00 per week

Late in 2018 Graincorp announced it had received a non-binding, indicative proposal to acquire all of the issued capital via a scheme of arrangement from Long-Term Asset Partners (LTAP) expressing interest in a transaction which could result in a change of control of the Company. The LTAP Proposal involves an acquisition, via a scheme of arrangement, of 100% of the shares in the Company for cash consideration of \$10.42 per share. For the proposed scheme of arrangement to be approved a resolution in favour must be passed at the scheme meeting; requiring 75% of votes cast in favour of the resolution, and more than 50% of shareholders to have voted on the resolution. The LTAP evaluation is ongoing.

Key Board or senior management changes

There were no senior management changes in the year. At the pre-AGM meeting, the ASA monitors raised the matter of board refreshment with the Chair. We indicated that at least four of the non-executive directors (NEDs) had served for more than nine years and should they stand for re-election the ASA would not support their nomination due to no longer being considered independent. The Chair's response was that he was aware of the long service issue and had commenced a process of refreshment. Mr Bradley himself joined the board in March 2017 and assumed the role of Chair in May 2017. Presently two of GrainCorp's nine board members are female, that is 22%.

It was disappointing to see that the lost time injury frequency rate appears to have started to rise again after having being sharply reduced to 2016. At the pre-AGM meeting the Chair agreed that there needs to be more work here. The increase in lost time injuries was largely due to (i) 'fitness for work' issues associated with an ageing workforce doing manual work, and (ii) slips and trips.

In response to the decline in safety performance, GrainCorp is implementing initiatives to improve education on bending, lifting and moving safely in consideration of individual capabilities. GrainCorp is also applying a greater focus on engagement between managers and workers, via safety conversations, to identify and eliminate hazards.

The company is also utilising technology to reduce risk, such as:

- * using vacuum fans on bunkers to reduce risk of tarps lifting in the wind and causing injury.
- * process automation reducing the need for workers to access the top of silos (i.e. reducing working-at-heights risk).
- * installation of radio frequency identification to provide virtual exclusion zone around forklifts.
- * eye movement monitoring cameras in trucks to detect driver fatigue.
- * custom-developed Apps to record safety conversations with workers and to verify effectiveness of critical safety controls.

Item 2	Adoption of the Remuneration Report
ASA Vote	For

Summary of ASA Position

ASA voted FOR the Remuneration Report last year.

The Remuneration Report is clear, detailed and easy to understand, although there was a table of actual “take home” pay, the format was not as requested by the ASA with the increase in the value of the deferred STI being ignored. Executive key management personnel (KMP) received some fixed remuneration increases between 0 to 3%. The CEO did not receive an increase to his fixed component. The non-executive directors (NED) had some increases to their base fees. The Chair’s fee was unchanged; Board members fees increased by 2.5% and Audit committee member fees increases by 20%. For the same period Australian Full time Average Weekly Total Earnings rose 2.7%. The following table shows KMP remuneration is the preferred ASA format of actual “take home” pay. Overall there is a 12% decrease on FY17, mostly due to reduced STI cash payments.

2018*	Base Salary	Non Items	STI cash	Super	STI Deferred	LSL Provision	Total
ML Palmquist	1,319	126	410	0	485	21	2,361
AG Bell	612	0	146	21	151	11	941
G A Friberg	656	18	206	10	248	0	1,138
K Pamminger	688	0	171	26	104	18	1,007
S J Tainsh	593	0	149	25	137	4	908
Total	3,868	144	1,082	82	1,125	54	6,355

*All figures \$’000. LTI payments are not shown above because none vested during the year.

A significant proportion of all KMP remuneration is at risk, for the CEO 66% and for other KMP between 47 and 50%. The at-risk component consists of short-term incentive (STI), measured over 1 year and long-term incentive (LTI) measured over three years. STI is paid partly in cash and part deferred performance rights (PR). For the CEO 50% is deferred and for other KMP 41.2%. The deferred PR vest in 12 months for the CEO and for other KMP, 50% vests at 12 and 24 months. LTI performance rights vest in three years. PR are allocated using volume weighted average share price (VWAP) as the allocation price.

For 2018 STI, KMP were assessed on Group underlying net profit after tax (NPAT) 50%, other group metrics 30%, and individual targets 20%. Individual KPIs are assessed on a scale from 0-100%. In FY18 there was no difference between underlying and statutory NPAT. The Group performance measures are clearly disclosed and there is an excellent table on page 37 of the annual report (AR) showing the degree to which each was achieved. Executive STI vesting outcomes ranged from 59 to 75% of target, compared with 105 to 145% in FY 2017. Measures that were significantly underachieved were NPAT, Group Safety, Business Unit Safety and People Engagement.

For 2018 LTI, KMP were assessed on two performance hurdles, each at 50%, return of equity (ROE) and relative Total Shareholder Return (RTSR). The ROE target is set by the Board as part of the budgeting process each year. The average of the three year targets is the ROE hurdle. 50% of rights vest at target. To calculate RTSR the company's share price movement plus dividend received is measured against 100 ASX listed companies, 50 above and 50 below GrainCorp's market capitalisation ranking. 100% of RTSR rights vest at 75% of target and 50% vest at the 50th percentile of target.

LTI awards relating to the 2016 FY lapsed and no vesting occurred, as was the case for LTI awards relating to the 2015 FY. In 2018, the average ROE target was 7.8% while 4.8% was achieved and the RTSR percentile ranking was 13th.

There will be some changes to the LTI plan in 2019, Absolute TSR will replace RTSR and ROE will be replaced by Return on Invested Capital (ROIC) but the metrics are similar to current metrics.

The ASA will support the vote on the remuneration report.

Item 3a	Re election of Mr Peter Richards
ASA Vote	Against

Summary of ASA Position

Mr Richards has served on the GrainCorp Board since November 2015. He holds a bachelor of Commerce degree from the University of Western Australia. Presently, Mr Richards is Chair of the Board of EMECO Holdings Limited, Cirralto Limited and IndiOre Limited. He was previously a director of Baralaba Coal Company Limited, Bradken Limited and Sedgman Limited. He has extensive CEO and management experience gained while working for Dyna Nobel Limited in Australia and the United States. Mr Richards is also on GrainCorp's Board Audit and Safety Health Environment & Governance Committees. He holds 10,000 GNC shares equivalent to \$79,000 while his annual fee is in the region of \$162,000.

The ASA will not be supporting Mr Richards' nomination for re-election as we believe that his current workload including three Chair roles plus the GrainCorp NED role is excessive and that should another of his companies require extra attention, he might not be able to fully perform his duties at GrainCorp. The ASA notes that Mr Richard sat on the board of Bradken Limited, an ASX listed company from February 2009 to November 2015 and during that time the share price, after a rollercoaster ride, dropped from \$4.31 to \$3.25, when it was eventually taken over by Hitachi Construction Machinery. Further, the ASA is of the view that a NED should have invested at least one year's fees in the company's shares after having been appointed to the board for three years, even though the company does not require him to do so. Presently he holds less than half this amount.

Item 3b	Re election of Mr Donald McGauchie
ASA Vote	Against

Summary of ASA Position

Mr McGauchie has served on the Board since December 2009, before that from October 2000 to July 2003. Presently he holds board positions as Chair of Nufarm Limited and Australian Agricultural Company Limited. He has previously been a Director of James Hardie PLC, joining the board [after that restructure](#), but holding the role at the time of high CEO termination payments. He is a Fellow of the Australian Institute of Company Directors.

Although it is historical and therefore not included in his summary/resume Mr McGauchie also served as Chair of Telstra from 1998 to 2009, the time of the appointment of Sol Trujillo.

Mr McGauchie holds 89,000 GNC shares roughly equivalent to \$700,000, well in excess of his annual fees, meeting the ASA's 2018 focus issue of "skin in the game". Mr McGauchie has been on the Board for 10 years and the ASA finds it difficult to support for his re-election as we can no longer consider him to be independent. The ASA has had some discussions with the Chair regarding board refreshment at the pre-AGM meeting and his response is covered at the beginning of this voting intention. We hope Mr McGauchie will speak at the meeting.

Item 4	Approval of Performance Rights to Managing Director Mr M Palmquist
ASA Vote	For

Summary of ASA Position

See also comments under 'Remuneration report' regarding current LTI plan.

Mr Palmquist is CEO and MD. He was granted 162,387 PR under the 2018 LTI Plan, in value equivalent to 100% of his fixed remuneration. Under the LTI plan the PR will be subject to performance hurdles to be tested on 30/9/2020, there will be no retesting. The number of rights issued has been calculated using 11 day VWAP following the release of annual results of the

financial year up to the last trading day before the proposed LTAP scheme was announced to the market. The ASA will support this resolution.

The individuals involved in the preparation of this voting intention have no shareholding in this company.

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