

Demerger Scheme Booklet



For a scheme of arrangement in relation to the proposed
demerger of United Malt Group (UMG) from GrainCorp Limited

✓ **Vote in favour**

THE GRAINCORP DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE RESOLUTIONS TO APPROVE THE DEMERGER

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE DEMERGER IS IN THE BEST INTERESTS OF GRAINCORP SHAREHOLDERS

This is an important document and requires your immediate attention. You should read this Demerger Scheme Booklet in its entirety, taking particular notice of the advantages, disadvantages and risks of the Demerger and the risks of an investment in UMG before deciding whether or not to vote in favour of the Demerger. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

If, after reading this Demerger Scheme Booklet, you have any questions about the Demerger or the number of GrainCorp Shares you hold or how to vote, please call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time).

If you have recently sold all of your GrainCorp Shares, please disregard this document.

Financial Advisors:



MACQUARIE

CREDIT SUISSE



Legal Advisors:



GILBERT
+ TOBIN

Important notices

General

GrainCorp Shareholders are encouraged to read this Demerger Scheme Booklet in its entirety before making a decision as to how to vote on the Demerger Resolutions to be considered at the Meetings.

Purpose of Demerger Scheme Booklet

The purpose of this Demerger Scheme Booklet is to explain the terms of the Demerger and the manner in which the Demerger will be implemented (if approved), to provide certain information required by law and to provide all other information (other than information previously disclosed to GrainCorp Shareholders) that is known to GrainCorp which is material to the decision of GrainCorp Shareholders whether or not to vote in favour of the Demerger Resolutions to be considered at the Meetings.

This Demerger Scheme Booklet includes:

- the explanatory statement required to be sent to GrainCorp Shareholders under Part 5.1 of the Corporations Act in relation to the Demerger Scheme; and
- all the information known to GrainCorp that is material to GrainCorp Shareholders in deciding how to vote on the Capital Reduction Resolution.

GrainCorp Shareholders should read this Demerger Scheme Booklet in its entirety before making a decision as to how to vote on the Demerger Resolutions to be considered at the Demerger Scheme Meeting and the General Meeting.

Responsibility for information

Grant Samuel has prepared the Independent Expert's Report set out in Attachment A and takes responsibility for that report.

PwCS has prepared the Investigating Accountant's Report set out in Attachment B. PwCS has given, and has not withdrawn before the time of registration of this Demerger Scheme Booklet by ASIC, its written consent to the inclusion of its Investigating Accountant's Report in this Demerger Scheme Booklet in the form and context in which it is included. PwCS takes no responsibility for any part of this Demerger Scheme Booklet, other than the Investigating Accountant's Report and any reference to its name.

KPMG has prepared Section 6 (Taxation implications of the Demerger for GrainCorp Shareholders) based on the information about GrainCorp, UMG and the Demerger provided to KPMG by or on behalf of GrainCorp and UMG. KPMG is responsible for the information about the Australian income tax, goods and services tax and stamp duty implications arising for GrainCorp Shareholders under the Demerger in Section 6. KPMG does not assume any responsibility for the accuracy or completeness of information contained in this Demerger Scheme Booklet, other than the information contained in Section 6.

Other than as described above, the information in this Demerger Scheme Booklet has been prepared by, and is the responsibility of, GrainCorp. However, GrainCorp and UMG have agreed in the Demerger Deed that any liability incurred by either of them in relation to this Demerger Scheme Booklet is to be apportioned in the manner described in the summary of the material terms of the Demerger Deed in Section 5.10(b)(iii).

ASIC

A copy of this Demerger Scheme Booklet was provided to ASIC under section 411(2) of the Corporations Act and registered by ASIC under section 412(6) of the Corporations Act. ASIC has been given the opportunity to comment on this Demerger Scheme Booklet in accordance with section 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no

objection to the Demerger Scheme. If ASIC provides that statement, it will be produced to the Court at the Second Court Hearing. Neither ASIC nor its officers take any responsibility for the contents of this Demerger Scheme Booklet.

ASX Listing

UMG will apply for admission to the Official List and for Official Quotation of all UMG Shares on ASX.

Neither ASX nor its officers take any responsibility for the contents of this Demerger Scheme Booklet. The fact that ASX may admit UMG to the Official List should not be taken in any way as an indication of the merits of an investment in UMG.

Court

The fact that, under subsection 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Demerger Scheme or as to how GrainCorp Shareholders should vote (on this matter GrainCorp Shareholders must reach their own decision); or
- has prepared, or is responsible for the content of, this Demerger Scheme Booklet.

An order of the Court under section 411(1) of the Corporations Act is not an endorsement by the Court of, or any other expression of opinion by the Court on, the Demerger Scheme.

Status of this Demerger Scheme Booklet

This Demerger Scheme Booklet is not a prospectus lodged under Chapter 6 of the Corporations Act. Section 708(17) of the Corporations Act provides that disclosure to investors under Part 6D.2 of the Corporations Act is not required for an offer of securities that is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court under section 411(1) or (1A) of the Corporations Act.

Foreign jurisdictions and Ineligible Foreign Holders

GrainCorp Shareholders who are Ineligible Foreign Holders will not receive UMG Shares under the Demerger. UMG Shares that would otherwise be transferred to Ineligible Foreign Holders under the Demerger will be transferred to the Sale Agent to be sold on the ASX, with the Sale Facility Proceeds remitted to them. See Section 5.6(a) for further information.

GrainCorp Shareholders resident outside Australia for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger. For a general summary of the Australian income tax, goods and services tax and stamp duty implications of the Demerger for certain GrainCorp Shareholders, see Section 6.

This Demerger Scheme Booklet does not in any way constitute an offer of securities in any jurisdiction in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify UMG Shares or otherwise permit a public offering of such securities in any jurisdiction outside Australia. Based on the information available to GrainCorp as at the date of this Demerger Scheme Booklet, a GrainCorp Shareholder whose registered address on the GrainCorp Register as at the Demerger Scheme Record Date is in one of the following jurisdictions will be an Eligible GrainCorp Shareholder and will be entitled to have UMG Shares transferred to them if the Demerger is implemented:

- Australia and its external territories;
- The Bahamas;
- Canada;
- Germany;

- Hong Kong;
- Isle of Man;
- New Zealand;
- United Kingdom;
- United States; or
- any other jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder.

See Section 5.6(a) for further information on jurisdictions where Demerger Participants will not be classified as Ineligible Foreign Holders.

Nominees, custodians and other GrainCorp Shareholders who hold GrainCorp Shares on behalf of a beneficial owner resident outside Australia and its external territories, The Bahamas, Canada, Germany, Hong Kong, Isle of Man, New Zealand, the United Kingdom and the United States may not forward this Demerger Scheme Booklet (or accompanying documents) to anyone outside these jurisdictions without the consent of GrainCorp.

Financial information

The basis of preparation and presentation of the:

- UMG Post-Demerger Pro Forma Historical Financial Information is as described in Section 2.17(b); and
- GrainCorp Post-Demerger Pro Forma Historical Financial Information is as described in Section 3.13(b)

Investment decisions

This Demerger Scheme Booklet contains general advice only and has been prepared without reference to the investment objectives, financial situation or particular needs of individual GrainCorp Shareholders or any other person. This Demerger Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to GrainCorp Shares, UMG Shares or any other securities. You should consider, with or without the assistance of a financial adviser, whether the information in this Demerger Scheme Booklet is appropriate for you, having regard to your particular investment needs, objectives and financial circumstances and consult your legal, financial or other professional adviser before making any investment decision.

Forward-looking statements

Forward-looking statements in this Demerger Scheme Booklet may generally be identified by the use of forward-looking words such as “believe”, “aim”, “expect”, “anticipate”, “intend”, “foresee”, “likely”, “should”, “planned”, “may”, “might”, “is confident”, “estimate”, “potential” or other similar words or phrases. These statements discuss or otherwise refer to future expectations concerning the results of operations or financial condition of the GrainCorp Post-Demerger Group or the UMG Group, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond GrainCorp’s or UMG’s control, and which may cause the actual results, performance or achievements of GrainCorp or UMG to be materially different from future results, performance or achievements expressed or implied by such statements.

Other than as required by law, neither GrainCorp, UMG, their officers, advisors nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Demerger Scheme Booklet will actually occur.

Additionally, statements of the intentions of the:

- GrainCorp Board in respect of matters before implementation of the Demerger reflect the present intentions of the GrainCorp Directors as at the date of this Demerger Scheme Booklet;

- GrainCorp Board in respect of matters after implementation of the Demerger reflect the present intentions of the persons who will be GrainCorp Directors immediately after implementation of the Demerger (as identified in Section 3.7(a)) as at the date of this Demerger Scheme Booklet; or
- UMG Board reflect the present intentions of the UMG Directors as at the date of this Demerger Scheme Booklet,

and may be subject to change as the composition of the GrainCorp Board and UMG Board alters, or as circumstances require.

Except as required by law, GrainCorp and UMG disclaim any obligation or undertaking to update or revise any forward-looking statement in this Demerger Scheme Booklet.

Privacy

GrainCorp and UMG and their respective share registries may collect personal information in the process of implementing the Demerger and administering the shareholding arising from the Demerger. The personal information may include the names, addresses, contact details and security holdings of GrainCorp Shareholders and the names of persons appointed by GrainCorp Shareholders as proxies, attorneys or corporate representatives at the Meetings. The collection of some of this personal information is required or authorised by the Corporations Act.

The primary purposes of collecting this personal information is to assist in the conduct of the Meetings, to enable the Demerger to be implemented in the manner described in this Demerger Scheme Booklet and to administer the shareholdings arising from the Demerger. The personal information may be disclosed to GrainCorp's and UMG's share registries, print and mail service providers, authorised securities brokers and any other service provider and adviser engaged by GrainCorp, UMG or their respective share registries for this purpose. Some of these recipients may be located in overseas countries.

If the information outlined above is not collected, GrainCorp and UMG may be hindered in, or prevented from, conducting the Meetings and implementing the Demerger.

GrainCorp Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. Such individuals should contact GrainCorp's Share Registry on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) if they wish to exercise these rights.

GrainCorp Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of the matters outlined above.

Notices of Meeting

The Notice of Demerger Scheme Meeting is set out in Attachment E.

The Notice of General Meeting is set out in Attachment F.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Demerger Scheme.

Each GrainCorp Shareholder and, with the Court's permission, any other interested person has the right to appear at the Second Court Hearing.

If you wish to oppose the approval of the Demerger Scheme at the Second Court Hearing, you may do so by filing with the Court and serving on GrainCorp a notice of appearance in the prescribed form together with any affidavit on which you wish to rely at the hearing. With leave of the Court, you may also oppose the approval of the Demerger Scheme by appearing at the Second Court Hearing and applying to raise any objections you may have at the hearing. GrainCorp should be notified in advance of an intention to object. The Second Court Hearing is currently scheduled to be held at the Federal Court of Australia, Law Courts Building, 184 Phillip Street, Sydney

NSW 2000, at 9:00am on Friday, 20 March 2020, though an earlier date for the Second Court Hearing may be sought. Any change to this date will be announced on the ASX company announcements platform.

Supplementary information

GrainCorp has established the GrainCorp Shareholder Information Line, which you should call if you have any questions or require further information about this Demerger Scheme Booklet or the Demerger. The telephone number is 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time). GrainCorp Shareholders should consult their legal, financial or other professional adviser before making any decision regarding the Demerger.

In certain circumstances, GrainCorp may provide additional disclosure to GrainCorp Shareholders in relation to the Demerger after the date of this Demerger Scheme Booklet. To the extent applicable, GrainCorp Shareholders should have regard to any such supplemental information in determining how to vote in relation to the Demerger. Refer to Section 7.17 for information about the steps that GrainCorp will take if any such additional disclosure is required.

Interpretation

Capitalised terms and certain abbreviations used in this Demerger Scheme Booklet have the meanings set out in the Glossary in Section 8 of this Demerger Scheme Booklet. The documents reproduced in the Attachments to this Demerger Scheme Booklet may have their own defined terms, which are sometimes different from those in the Glossary.

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Demerger Scheme Booklet. All numbers are rounded unless otherwise indicated.

Unless otherwise specified, all references to \$US or USD and cents are references to United States currency.

Unless otherwise specified, all references to A\$, AUD and Australian cents are references to Australian currency.

All references to times in this Demerger Scheme Booklet are references to the time in Sydney, New South Wales, Australia, unless otherwise stated.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Demerger Scheme Booklet are subject to the effect of rounding. Accordingly, actual calculations may differ from amounts set out in this Demerger Scheme Booklet.

Date

This Demerger Scheme Booklet is dated 6 February 2020.

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Chairman's Letter



Dear GrainCorp Shareholder,

On behalf of the GrainCorp Board, I am pleased to present this Demerger Scheme Booklet, which contains information about the proposed Demerger of GrainCorp's international malt business, United Malt Group ("UMG").

Your GrainCorp Directors unanimously recommend that you support the Demerger described in detail in this Demerger Scheme Booklet.

The GrainCorp Board believes that the Demerger has the potential to unlock significant value for GrainCorp Shareholders by creating two high quality, ASX-listed agribusiness companies, each with management teams focussed on pursuing independent strategies and growth opportunities. The Demerger will also allow each of GrainCorp and UMG to attract new investors with a wider range of investment strategies and preferences.

UMG is and, after the separation from GrainCorp will continue to be, the world's fourth largest independent commercial maltster, with malting houses in Canada, the United States, Australia and the United Kingdom and strong market shares in these countries in the growing craft brewing and Scotch whisky sectors. It is also a leading craft malt distributor in North America.

GrainCorp is a leading integrated Australian agribusiness. GrainCorp has diversified operations connecting growers to domestic and international consumers in over 30 countries spanning four continents. GrainCorp provides its international customer base with a suite of services across the grains, oilseeds, pulses, edible oils and feeds value chains.

GrainCorp will retain a minority ownership interest of 10% in UMG. This will provide GrainCorp additional balance sheet resources and financing flexibility.

Rationale for the Demerger

Over the past 12 months, the GrainCorp Board has undertaken a comprehensive review of the GrainCorp Pre-Demerger Group's businesses and assessed a range of strategies designed to create value for GrainCorp Shareholders. The GrainCorp Board considered numerous potential alternatives, including the sale of the UMG Business. After considering the advantages, disadvantages and risks of these alternatives and the Demerger, the GrainCorp Board determined that the Demerger has the potential to deliver greater value to GrainCorp Shareholders over time than the alternatives considered.

The GrainCorp Board is committed to ensuring that, should the Demerger proceed, both GrainCorp and UMG are established with a strong foundation for success and growth as independent, ASX-listed companies. If the Demerger proceeds, both UMG and GrainCorp will have appropriate balance sheets, prudent financial policies and experienced

boards and management teams so that both companies will be well-positioned to create future value for their shareholders.

Grant Samuel, the Independent Expert appointed to review the proposed Demerger, has concluded that the Demerger is in the best interests of GrainCorp Shareholders. A copy of the Independent Expert's Report is contained in Attachment A of this Demerger Scheme Booklet.

Implementation of the Demerger

If approved by GrainCorp Shareholders and the Court, the Demerger will be implemented by way of the Demerger Scheme, a Capital Reduction and Demerger Dividend. Each Eligible GrainCorp Shareholder (who is not a Selling Small Shareholder) will receive one UMG Share for each GrainCorp Share they hold on the Demerger Scheme Record Date, which is expected to be 7:00pm on Wednesday, 25 March 2020.

As noted above, GrainCorp will retain a minority ownership interest in UMG. Accordingly, as part of implementation of the Demerger:

- GrainCorp will retain 10% of the UMG Shares on issue;
- the remaining 90% of UMG Shares will be transferred to, or on behalf of, Demerger Participants on the Demerger Implementation Date; and
- GrainCorp Shareholders will retain their GrainCorp Shares.

After the Demerger, Eligible GrainCorp Shareholders will have the choice to retain both their GrainCorp Shares and their UMG Shares or to sell either or both, providing a greater degree of investment choice than at present.

I encourage you to read this Demerger Scheme Booklet carefully and in its entirety. It sets out important information that will assist you to make an informed decision about the Demerger, including the advantages, disadvantages and risks of the Demerger, as well as the risks of holding an investment in UMG Shares and GrainCorp Shares after the Demerger.

If you have any questions about this Demerger Scheme Booklet or the Demerger, please consult your financial, legal, taxation or other professional advisor or call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time), or visit the GrainCorp website at <http://www.demerger.graincorp.com.au>.

The Demerger must be approved by the Requisite Majorities of GrainCorp Shareholders, so your vote is important. I encourage you to vote on the Demerger Resolutions in person, by proxy, by attorney or, in the case of a corporation, by corporate representative, at the Demerger Scheme Meeting and the General Meeting, which will be held consecutively on Monday, 16 March 2020 at the Hilton Hotel, 488 George Street, Sydney NSW 2000, beginning at 10:00am.

If you are voting by proxy, your completed proxy form must be received by 10:00am on Saturday, 14 March 2020 (Sydney time). Further information about how to vote on the Demerger Resolutions is set out on page 13 of this Demerger Scheme Booklet.

Your GrainCorp Directors unanimously recommend that you vote in favour of the Demerger Resolutions and each Director intends to vote, or cause to be voted, any GrainCorp Shares that he or she holds or Controls in favour of the Demerger Resolutions.

Yours faithfully,



Graham Bradley AM
Chairman

Key dates relating to the Demerger

Key event	Date
Key dates relating to the Meetings	
Demerger Scheme Meeting and General Meeting Proxy Form deadline Last time and date by which the Demerger Scheme Meeting Proxy Form and General Meeting Proxy Form must be received by the GrainCorp Registry	10:00am on Saturday, 14 March 2020
Demerger Scheme Meeting and General Meeting Record Date Time and date for determining eligibility to vote at the Demerger Scheme Meeting and General Meeting	10:00am on Saturday, 14 March 2020
Demerger Scheme Meeting To be held at Hilton Hotel, 488 George Street, Sydney NSW 2000	10:00am on Monday, 16 March 2020
General Meeting To be held at Hilton Hotel, 488 George Street, Sydney NSW 2000	10:30am (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020
Key dates for implementation of the Demerger (if GrainCorp Shareholders approve the Demerger at the Meetings)	
Second Court Hearing To approve the Demerger Scheme	9:00am on Friday, 20 March 2020
Effective Date This is the date on which the Court order approving the Demerger Scheme is lodged with ASIC and the Demerger Scheme becomes Effective and binding on GrainCorp Shareholders Last date that GrainCorp Shares trade on the ASX cum-entitlements under the Demerger Scheme	Monday, 23 March 2020
Sale Facility Election Time Last time and date by which Sale Facility Election Forms and Sale Facility Election Withdrawal Forms must be received by the GrainCorp Registry from Small Shareholders	5:00pm on Monday, 23 March 2020
ASX Listing of UMG UMG Shares expected to commence trading on the ASX on a deferred settlement basis GrainCorp Shares commence trading on the ASX on an ex-Demerger Scheme entitlement basis	Tuesday, 24 March 2020
Demerger Scheme Record Date Time and date for determining entitlements to UMG Shares under the Demerger	7:00pm on Wednesday, 25 March 2020
Demerger Implementation Date Transfer of UMG Shares to Eligible GrainCorp Shareholders or Sale Agent (as applicable)	Wednesday, 1 April 2020
Despatch of holding statements to UMG Shareholders and last day of deferred settlement trading for UMG Shares	Wednesday, 1 April 2020

KEY DATES RELATING TO DEMERGER

Key event	Date
UMG Shares expected to commence trading on a normal settlement basis	Thursday, 2 April 2020
UMG Shares sold by the Sale Agent on behalf of Selling Shareholders	Thursday, 2 April 2020 to Thursday, 30 April 2020
Despatch of payments to Selling Shareholders	Expected to occur on or before Friday, 15 May 2020

All dates and times after the date of the Demerger Scheme Meeting and General Meeting are indicative only and are subject to the Court approval process and the satisfaction of the Conditions Precedent to the implementation of the Demerger (see Section 5.2). All dates and times, unless otherwise indicated, refer to the date and time in Sydney, Australia. Any changes to the above timetable will be announced to ASX and notified on GrainCorp's website at <http://www.demerger.graincorp.com.au>.

Next steps and key actions for GrainCorp Shareholders

(a) Carefully read this Demerger Scheme Booklet

This Demerger Scheme Booklet is an important document and you should read it carefully and in its entirety (including the advantages, disadvantages and risks of the Demerger described in Section 1, the Notice of Demerger Scheme Meeting at Attachment E and Notice of General Meeting at Attachment F) before making a decision on how to vote at the Demerger Scheme Meeting and the General Meeting.

(b) Vote on the Demerger Resolutions

As a GrainCorp Shareholder, you are entitled to vote on whether the Demerger Scheme should proceed at the Demerger Scheme Meeting.

The Capital Reduction, together with the Demerger Dividend, will form the consideration for the transfer of the UMG Shares to GrainCorp Shareholders under the Demerger. As a GrainCorp Shareholder, you are entitled to vote on whether to approve the Capital Reduction at the General Meeting.

Please refer to the following pages of this Demerger Scheme Booklet, the Notice of Demerger Scheme Meeting at Attachment E and Notice of General Meeting at Attachment F for details on how to vote at the Demerger Scheme Meeting and the General Meeting, including by proxy.

(c) If you are a Small Shareholder, choose whether to keep or sell the UMG Shares that you are entitled to receive under the Demerger

If you are a Small Shareholder (who holds 500 or fewer GrainCorp Shares as at the Demerger Scheme Record Date), you may elect to have all the UMG Shares that you would otherwise receive under the Demerger sold by the Sale Agent and the Sale Facility Proceeds remitted to you, free of any brokerage costs or stamp duty (but excluding any interest and after deducting any applicable withholding tax).

To make this election, you must:

- (i) if you received a hard copy of this Demerger Scheme Booklet (which enclosed a personalised Sale Facility Election Form):
 - (A) mail your completed Sale Facility Election Form to to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 using the reply-paid envelope provided; or
 - (B) deliver your completed Sale Facility Election Form by hand to the GrainCorp Registry, located at 1A Homebush Bay Drive, Rhodes NSW 2138; or
- (ii) if you received a copy of this Demerger Scheme Booklet electronically, or would otherwise prefer to submit your Sale Facility Election Form online, lodge your Sale Facility Election Form online by going to www.demerger.graincorp.com.au and following the prompts and instructions.

Your Sale Facility Election Form must be lodged online, or received by the GrainCorp Registry by the Sale Facility Election Time, being 5:00pm (Sydney time) on Monday, 23 March 2020.

Small Shareholders may withdraw their Sale Facility Election by lodging a Sale Facility Election Withdrawal Form. To withdraw your Sale Facility Election:

- (i) if you received a hard copy of this Demerger Scheme Booklet (which enclosed a personalised Sale Facility Election Withdrawal Form):
 - (A) mail your completed Sale Facility Election Withdrawal Form to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 using the reply-paid envelope provided; or
 - (B) deliver your completed Sale Facility Election Withdrawal Form by hand to the GrainCorp Registry, located at 1A Homebush Bay Drive, Rhodes NSW 2138; or
- (ii) if you received a copy of this Demerger Scheme Booklet electronically:
 - (A) go to www.demerger.graincorp.com.au and following the prompts and instructions to make a request for a personalised Sale Facility Election Withdrawal Form to be provided to you; or
 - (B) call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time) to make a request for a personalised Sale Facility Election Withdrawal Form to be provided to you,

and, once you have received your personalised Sale Facility Election Withdrawal Form, follow the lodgement instructions contained in that personalised Sale Facility Election Withdrawal Form.

Sale Facility Election Withdrawal Forms must be received by the GrainCorp Registry by the Sale Facility Election Time, being 5:00pm (Sydney time) on Monday, 23 March 2020.

See Section 5.6 for more information about the Sale Facility.

(d) Seek further information

If you have any questions in relation to the Demerger or the number of GrainCorp Shares you hold or how to vote, please call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time).

Please note that the GrainCorp Shareholder Information Line cannot provide any financial, taxation or investment advice and cannot give an opinion on the merits of the Demerger. If you have any questions about your individual financial or taxation circumstances, please contact your financial, legal, taxation or other professional advisers.

(e) Why you should vote on the Demerger Resolutions

As a GrainCorp Shareholder, you have a say in whether the Demerger will proceed. This is your opportunity to play a role in deciding the future of GrainCorp.

How to vote on the Demerger Resolutions

Who is entitled to vote at the Demerger Scheme Meeting and General Meeting?

If you are registered on the GrainCorp Register as a GrainCorp Shareholder at 10:00am (Sydney time) on Saturday, 14 March 2020, then you will be entitled to vote on:

- (1) the resolution to approve the Demerger Scheme at the Demerger Scheme Meeting; and
- (2) the resolution to approve the Capital Reduction at the General Meeting.

Registrable transmission applications or transfers registered after this time will be disregarded for the purpose of determining entitlements to vote at the Demerger Scheme Meeting and the General Meeting.

Voting is not compulsory.

Joint holders

In the case of GrainCorp Shares held by joint holders, only one of the joint holders is entitled to vote. If more than one joint GrainCorp Shareholder votes in respect of jointly held GrainCorp Shares, only the vote of the GrainCorp Shareholder whose name appears first on the GrainCorp Register will be counted.

Location and details of Demerger Scheme Meeting and General Meeting

The details of the Demerger Scheme Meeting are as follows:

Location	Hilton Hotel, 488 George Street, Sydney NSW 2000
Date	Monday, 16 March 2020
Time	10:00am (Sydney time)

The details of the General Meeting are as follows:

Location	Hilton Hotel, 488 George Street, Sydney NSW 2000
Date	Monday, 16 March 2020
Time	10:30am (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting)

Notice of Demerger Scheme Meeting

A copy of the Notice of Demerger Scheme Meeting is set out in Attachment E to this Demerger Scheme Booklet.

Section 5.4(a) provides details of the Demerger Scheme Resolution and the Requisite Majorities that are required for the Demerger Scheme Resolution to be passed.

Notice of General Meeting

A copy of the Notice of General Meeting is set out in Attachment F to this Demerger Scheme Booklet.

Section 5.4(b) provides details of the Capital Reduction Resolution and the Requisite Majority that is required for the Capital Reduction Resolution to be passed.

Voting in person, by attorney or corporate representative

To vote in person at the Meetings, GrainCorp Shareholders must attend the Meetings to be held at Hilton Hotel, 488 George Street, Sydney NSW 2000 on Monday, 16 March 2020 (at the times set out above).

The Meetings comprise the Demerger Scheme Meeting (which will commence at 10:00am) and the General Meeting (which will commence at 10:30am (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting)).

A GrainCorp Shareholder who wishes to attend and vote at the Meetings in person will be admitted to the Meetings and given a voting card upon disclosure of their name and address at the point of entry.

Persons who are attending as an attorney should bring the original or a certified copy of the power of attorney to the Meetings, unless it has already been noted by GrainCorp. The power of attorney must also be provided to the GrainCorp Registry in the same manner, and at the same time, as outlined for the proxy forms below.

Persons who are attending as a corporate representative for a corporation must bring evidence of their appointment. The appointment must comply with section 250D of the Corporations Act. An authorised corporate representative will be admitted to the Meetings and given a voting card upon providing written evidence of their appointment (including any authority under which it is signed), their name and address and the identity of their appointer, at the point of entry to the Meetings.

Voting by proxy

If you received a hard copy of this Demerger Scheme Booklet, your yellow personalised Demerger Scheme Meeting Proxy Form and your green personalised General Meeting Proxy Form accompany this Demerger Scheme Booklet.

Information setting out how you may vote by proxy is contained in the Notice of Demerger Scheme Meeting in Attachment E and Notice of General Meeting in Attachment F. If your proxy form is signed by an attorney, please also enclose the original authority under which the proxy form is signed (or a certified copy of the authority).

Proxy forms may be lodged as follows:

- **Online** at www.linkmarketservices.com.au, by going to the voting page and following the prompts and instructions. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is shown on the proxy form.
- **Mail** the completed proxy forms to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235 using the reply-paid envelope provided.
- **Deliver** the completed proxy forms to the GrainCorp Registry located at Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138.
- **Fax** the completed proxy forms to the GrainCorp Registry on (02) 9287 0309.

Demerger Scheme Meeting Proxy Forms and General Meeting Proxy Forms, together with any power of attorney or authority under which the relevant proxy form is signed, must be received no later than 10:00am (Sydney time) on Saturday, 14 March 2020. Demerger Scheme Meeting Proxy Forms and General Meeting Proxy Forms received after this time will be invalid.

A proxy will be admitted to the Meetings and given a voting card upon providing written evidence of their name and address at the point of entry to the Meetings. The sending of a proxy form will not preclude a GrainCorp Shareholder from attending in person and voting at the Meetings. However, under the Corporations Act, the presence of a shareholder at a meeting suspends his or her proxy's rights to speak and vote.

Given the last date for lodgement of Demerger Scheme Meeting Proxy Forms and General Meeting Proxy Forms falls on a Saturday, please ensure that any proxy form which you intend to post or deliver is received by close of business on Friday, 13 March 2020. GrainCorp will accept Demerger Scheme Meeting Proxy Forms and General Meeting Proxy Forms received by fax or lodged online before 10:00am (Sydney time) on Saturday, 14 March 2020.

Questions and answers

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
Background to, and overview of, the Demerger		
What is the Demerger?	<p>The Demerger is the proposed separation of GrainCorp's UMG Business from GrainCorp.</p> <p>The Demerger is proposed to occur by way of the Demerger Scheme, Capital Reduction and Demerger Dividend, which will result in 90% of the UMG Shares being distributed to, or for the benefit of, GrainCorp Shareholders. GrainCorp will retain a minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger. If the Demerger becomes Effective, Eligible GrainCorp Shareholders (other than Selling Small Shareholders) will be entitled to one UMG Share for every GrainCorp Share they hold as at the Demerger Scheme Record Date.</p> <p>If the Demerger is implemented, UMG, which is currently a wholly-owned subsidiary of GrainCorp, will become a standalone entity listed on the ASX.</p>	Section 5.1
What is the Demerger Scheme?	<p>The Demerger Scheme is a scheme of arrangement between GrainCorp and Demerger Participants under Part 5.1 of the Corporations Act. A scheme of arrangement is a statutory procedure that can be used to, among other things, enable a demerger of shares in a subsidiary of a company to its shareholders. GrainCorp Shareholders will be asked to approve the Demerger Scheme at the Demerger Scheme Meeting.</p>	Section 5.1
Why has the Demerger been proposed by the GrainCorp Board?	<p>The GrainCorp Board believes that the Demerger will unlock significant value for GrainCorp Shareholders by establishing two ASX-listed agribusinesses that are well-positioned for growth.</p> <p>The Demerger will provide UMG and GrainCorp with increased flexibility to implement independent operating strategies to drive long-term shareholder value and allow them to attract investors with different investment preferences.</p> <p>The Demerger will allow GrainCorp Shareholders to choose whether to directly invest in one or both of GrainCorp and UMG after the Demerger based on their individual investment objectives, risk tolerances and desired sector exposures.</p> <p>A summary of the advantages of the Demerger is set out in Section 1.3.</p>	Section 1
What alternatives to the Demerger did the GrainCorp Board consider?	<p>The GrainCorp Board believes that, over time, the Demerger will deliver greater value to GrainCorp Shareholders than the status quo or other potential options such as a divestment or an IPO of UMG.</p> <p>As GrainCorp announced to the ASX on 3 December 2018, GrainCorp undertook its Portfolio Review to develop and implement strategies to unlock and create value for GrainCorp Shareholders. As part of the Portfolio Review, GrainCorp engaged in discussions with several parties that approached GrainCorp and expressed an interest in acquiring part or parts of the GrainCorp portfolio, including UMG. However, a proposal to acquire part or parts of the GrainCorp portfolio</p>	Section 1.2

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>on terms and conditions acceptable to the GrainCorp Board did not emerge as a result of these discussions. See Section 1.2 for more information on the Portfolio Review and the other alternatives to the Demerger considered by the GrainCorp Board.</p> <p>The Demerger allows Eligible GrainCorp Shareholders to retain an interest in the UMG Business, benefit from potential future growth opportunities and make their own decisions about continuing to invest in UMG. The Demerger also does not preclude other interested parties from making an offer to GrainCorp or UMG after the Demerger, which may provide even greater value to GrainCorp Shareholders and/or UMG Shareholders at the relevant time.</p>	
What is UMG?	<p>UMG is the fourth largest commercial maltster globally, with 13 processing plants across Canada, the United States, Australia and the United Kingdom and approximately 1.25Mtpa of malting capacity. UMG's customers comprise global brewers, craft brewers, distillers and food companies. UMG also operates an international distribution business which provides a full service offering for craft brewers and distillers, offering malt, hops, yeast, adjuncts and related products.</p> <p>UMG is currently a wholly-owned subsidiary of GrainCorp. If the Demerger is implemented, UMG will be a standalone company and listed on the ASX.</p>	Section 2
Will GrainCorp own any UMG Shares after implementation of the Demerger?	Yes, GrainCorp will retain a minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger.	Section 3.6(a)
Why is GrainCorp retaining a shareholding in UMG?	GrainCorp will retain a minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger to provide additional balance sheet resources and financing flexibility.	Section 3.6(a)
What are GrainCorp's intentions regarding its retained shareholding in UMG?	The Retained UMG Shareholding is important in providing additional balance sheet resources and financing flexibility. There are no escrow or similar restrictions on the disposal by GrainCorp of any or all of the Retained UMG Shareholding. In determining whether to retain or dispose of any or all of the Retained UMG Shareholding after implementation of the Demerger, GrainCorp will have regard to, among other things, the capital requirements of the GrainCorp Post-Demerger Group and the market value of the Retained UMG Shareholding at the relevant time.	Section 3.6(a)
Recommendations		
What is the recommendation of the GrainCorp Directors?	<p>The GrainCorp Directors unanimously recommend that GrainCorp Shareholders vote in favour of the Demerger Resolutions to be considered at the Demerger Scheme Meeting and General Meeting.</p> <p>The reasons for this recommendation are set out in Sections 1.1 and 1.3.</p>	Section 1.1 and 1.3
How do the GrainCorp Directors intend to vote?	Each GrainCorp Director intends to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Demerger Resolutions.	Section 1.1

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	The number of GrainCorp Shares held by or on behalf of each GrainCorp Director as at the date of this Demerger Scheme Booklet is set out in Section 7.1.	
What is the Independent Expert's opinion of the Demerger?	<p>The Independent Expert has concluded that the Demerger is in the best interests of GrainCorp Shareholders.</p> <p>A copy of the Independent Expert's Report is set out at Attachment A to this Demerger Scheme Booklet.</p>	Attachment A
Advantages and disadvantages of, and risks relating to, the Demerger		
What are the advantages of the Demerger?	<p>The key advantages of the Demerger include:</p> <ul style="list-style-type: none"> • after the Demerger is implemented, GrainCorp and UMG will have separate boards and management teams empowered to pursue independent strategies and operational initiatives; • the Demerger will enable and accelerate a number of simplification and cost reduction initiatives across GrainCorp; • the Demerger will allow each of GrainCorp and UMG to implement tailored capital structures and financial policies appropriate for each business' characteristics; • the Demerger will allow each separate ASX-listed company to appeal to investors with different investment strategies and preferences; and • given the interest in GrainCorp's portfolio before the Demerger (as described in Section 1.2(b)), after the Demerger, there will remain the potential for GrainCorp, UMG or other GrainCorp portfolio businesses to be sold to a third party, potentially delivering a control premium to GrainCorp Shareholders and/or UMG Shareholders at the relevant time. <p>These advantages, together with other advantages of the Demerger, are described in more detail in Section 1.3.</p>	Section 1.3
What are the main disadvantages of the Demerger?	<p>The key disadvantages of the Demerger include:</p> <ul style="list-style-type: none"> • after the Demerger is implemented, GrainCorp and UMG will be separate, ASX-listed companies that are smaller and less diversified than GrainCorp as at the date of this Demerger Scheme Booklet; • there will be significant one-off transaction costs of approximately \$49 million associated with the Demerger. Approximately: \$20 million of these costs were incurred in the period to 30 September 2019, \$15 million of these costs are expected to be incurred in the period from 1 October 2019 up to the time of the Meetings, with \$14 million of these remaining costs expected to be incurred after the Meetings (and are conditional on the Demerger Resolutions being approved by the Requisite Majorities at the Meetings); • as a result of the Demerger, ongoing corporate and operating costs, including ASX listing and board-related costs, will be incurred by UMG; 	Section 1.4

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<ul style="list-style-type: none"> • following the Demerger, each of UMG and GrainCorp will have separate debt financing facilities, which may incur total costs that exceed GrainCorp's current financing costs; • following the Demerger, each of UMG and GrainCorp is likely to have reduced weighting in various stock market indices compared to GrainCorp as at the date of this Demerger Scheme Booklet and, as a result, there may be less trading liquidity; and • some GrainCorp Shareholders may not be eligible to receive UMG Shares as part of the Demerger (and will instead receive cash proceeds from the sale of those UMG Shares under the Sale Facility), or may be unable to retain UMG Shares or GrainCorp Shares after the Demerger. <p>These disadvantages, together with other disadvantages of the Demerger, are described in more detail in Section 1.4.</p>	
<p>What are the potential risks relating to the Demerger?</p>	<p>The key risks relating to the Demerger include:</p> <ul style="list-style-type: none"> • the advantages of the Demerger may not materialise; • uncertainty about the combined market value and trading of UMG Shares and GrainCorp Shares after the Demerger; • the potential for delays, unexpected costs and other issues in establishing UMG as a standalone, ASX-listed company; • UMG's historical financial information may not reflect the results of a standalone, ASX-listed company; • potential inability to obtain third party consents; and • the Court may not approve the Demerger or the approval of the Court may be delayed. <p>These risks are described in more detail in Section 4.2. You should review this Section 4.2 carefully before deciding whether or not to vote in favour of the Demerger Resolutions.</p>	<p>Section 4.2</p>
<p>What are the risks of an investment in UMG?</p>	<p>UMG will be subject to risks which may adversely affect its operating or financial performance, and the investment return or value of UMG Shares, after the Demerger. Many of these risks are existing business risks to which GrainCorp Shareholders are already indirectly exposed as a result of their shareholding in GrainCorp, while others arise out of, or increase as a result of, UMG becoming a standalone, ASX-listed company, independent from GrainCorp following the Demerger.</p> <p>These risks are described in detail in Section 4.3. You should review this Section before deciding whether or not to vote in favour of the Demerger Resolutions.</p>	<p>Section 4.3</p>
<p>What are the risks of an investment in GrainCorp after the Demerger?</p>	<p>GrainCorp will be subject to risks which may adversely affect its operating or financial performance, and the investment return or value of GrainCorp Shares, after the Demerger. Many of these risks are existing business risks to which GrainCorp Shareholders are already indirectly exposed as a result of their shareholding in GrainCorp, while others arise out of, or increase as a result of, GrainCorp becoming a smaller and less diversified business after implementation of the Demerger than it is as at the date of this Demerger Scheme Booklet.</p>	<p>Section 4.4</p>

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	These risks are described in detail in Section 4.4. You should review this Section before deciding whether or not to vote in favour of the Demerger Resolutions.	
Overview of UMG after implementation of the Demerger		
When will UMG Shares trade separately?	<p>It is expected that UMG Shares will commence trading on the ASX on Tuesday, 24 March 2020, initially on a deferred settlement basis.</p> <p>It is the responsibility of Eligible GrainCorp Shareholders to determine their entitlement to UMG Shares before trading in UMG Shares, especially during the deferred settlement trading period.</p> <p>Trading of UMG Shares on the ASX on a normal settlement basis is expected to commence on Thursday, 2 April 2020.</p>	Section 5.8(c)
What will UMG's share price be?	There is no certainty as to the price of UMG Shares after they commence trading on the ASX or at any time after implementation of the Demerger.	Section 4.2(b)
In which stock market index will UMG be eligible for inclusion?	<p>Upon implementation of the Demerger, it is anticipated that, based on UMG's expected free float adjusted market capitalisation, it will be eligible for inclusion in the S&P/ASX 200.</p> <p>However, no assurance can be provided that UMG will enter the index or will remain in the index in the future.</p>	Section 1.4(e)
What additional ongoing costs will UMG have as a standalone listed company?	UMG is expected to incur incremental, net ongoing costs of approximately \$14.9 million per annum as a standalone, ASX-listed company. These incremental, net ongoing costs include, amongst other things, the costs of establishing and operating a separate head office, share registry costs, company secretarial costs, the costs of maintaining a separate board of directors, insurance and technology costs.	Sections 1.4(c) and 2.17(e)
What will UMG's capital structure be?	<p>Upon implementation of the Demerger, UMG's balance sheet is expected to support a strong, investment grade capital structure. UMG has a policy of maintaining a ratio of net debt to EBITDA of 2.0 – 2.5 times to preserve balance sheet strength and flexibility, however, as a result of the seasonality of the UMG Business and the related working capital requirements (which are higher at 31 March and lower at 30 September), this ratio is likely to be exceeded at times during the course of a financial year.</p> <p>With effect from implementation of the Demerger, UMG will have committed debt financing facilities of \$737 million. See Section 2.17(i) for further details of the UMG Facilities.</p> <p>UMG will have only ordinary shares on issue and no other equity securities at the time of Demerger. However, as described in Section 2.14(b)(iii), after the Demerger, UMG intends to establish an LTI plan under which participants will be eligible to receive performance rights over UMG Shares.</p>	Sections 2.8(a), 2.17(i) and 2.14(b)(iii)
What currency will UMG report its financial information?	UMG will report its financial information in Australian dollars.	None

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
What will UMG's financial year end be?	UMG's financial year end will be 30 September.	None
What will be UMG's strategy after the Demerger?	<p>UMG's strategy is to maintain its position in Canada, US, Australia and UK as a leading commercial maltster. UMG intends to build shareholder value by focussing on high value markets where growth is expected to continue, driven by demand for premium beer, craft beer and Scotch whisky. The key elements of UMG's strategy are:</p> <ul style="list-style-type: none"> • maintain and develop relationships with global brewers; • continue to be the maltster of choice for craft brewers; • expand its craft distribution business in new geographies; • drive penetration in the Scottish distilling market; • proactively assess expansion and acquisition opportunities; and • drive operational excellence and continuous improvement, <p>and are described in more detail in Section 2.5.</p> <p>The future of UMG will ultimately be a matter for the UMG Board and senior management to develop over time and is subject to change as circumstances require.</p>	Section 2.5
What will UMG's dividend policy be?	<p>After the Demerger, UMG's dividend policy will be determined by the UMG Board at its discretion and may change over time.</p> <p>After the Demerger, the UMG Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements (including to fund growth projects) and targeted credit metrics. As a result, initially, UMG expects to distribute approximately 60% of underlying NPAT to UMG Shareholders.</p> <p>Whether any given dividend can be franked will depend on UMG's franking account balance, which will depend on the amount of Australian income tax paid by UMG after the Demerger. Immediately after implementation of the Demerger, UMG's franking account balance will be nil. UMG intends to frank its dividends to the extent practicable, although this is expected to be less than 100% as UMG operates in a number of geographical regions, resulting in a substantial proportion of UMG's earnings being derived outside Australia and which, therefore, may not be subject to Australian income tax.</p>	Section 2.8(b)
What currency will dividends be paid in?	Dividends will be declared by UMG in Australian dollars and will also be paid to UMG Shareholders in Australian dollars.	None
Who will be on the UMG Board?	<p>If the Demerger is implemented, the UMG Board is expected to comprise the following UMG Directors:</p> <ul style="list-style-type: none"> • Graham Bradley AM – non-executive Chairman; • Mark Palmquist – Managing Director and Chief Executive Officer; • Barbara Gibson – non-executive UMG Director and Chair, Safety, Health and Environment Committee; • Terry Williamson – non-executive UMG Director and Chair, Audit and Risk Committee; 	Section 2.10(a)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<ul style="list-style-type: none"> • Jane McAloon – non-executive UMG Director and Chair, Nominations and Remuneration Committee; and • Simon Tregoning – non-executive UMG Director. 	
Who will be in UMG's senior management team?	<p>If the Demerger is implemented, UMG's senior management team will comprise the following employees:</p> <ul style="list-style-type: none"> • Mark Palmquist – Managing Director and Chief Executive Officer; • Amy Spanik – Chief Financial Officer; • Darren Smith – President, Processing; • Bryan Bechard – President, Warehouse / distribution; • Mary Welle – Vice President, Human Resources; and • Donald McBain – Vice President, Strategy and Business Development. 	Section 2.10(c)
What commercial arrangements will GrainCorp and UMG have with each other after the Demerger?	<p>GrainCorp and UMG have entered into the Transitional Services Agreements, which sets out the terms on which:</p> <ul style="list-style-type: none"> • GrainCorp will provide certain information technology, payroll, finance, office space and other corporate services to UMG; and • UMG will provide certain finance services, human resources support and other corporate services to GrainCorp. <p>GrainCorp and UMG will provide the relevant services under the Transitional Services Agreements for transitional periods ranging from 3 to 12 months after implementation of the Demerger (depending on the relevant service), pending migration of those services. The key terms of the Transitional Services Agreements are summarised in Section 5.10(d).</p> <p>GrainCorp and UMG have also entered into, or will enter into:</p> <ul style="list-style-type: none"> • the Pinkenba Property Arrangements Deed, under which the relevant GrainCorp Post-Demerger Group and UMG Group entities agree to take certain steps required to give effect to the transfer of: <ul style="list-style-type: none"> – freehold land at Pinkenba, Queensland which, as at the date of this Demerger Scheme Booklet, is jointly used by the GrainCorp Business and the UMG Business; and – certain assets located on that land, to the UMG Group, and the entry into lease and licence arrangements in respect of that land, under which the GrainCorp Post-Demerger Group will retain the right to access the land and assets the subject of the transfers described above to enable it continue to conduct the GrainCorp Business on that land for an aggregate term of approximately 50 years (subject to the exercise of options) and aggregate annual rent and licence fees that will initially be nominal (see Section 5.10(e) for more information); • the Geelong Service Agreement, under which GrainCorp will continue to provide grain elevation services and site access at the Port of Geelong to UMG after implementation of the Demerger (see Section 5.10(f) for more information); and 	Sections 5.10(d), 5.10(e) and 5.10(f)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<ul style="list-style-type: none"> the Pinkenba Barley Handling Agreement, under which GrainCorp will continue to provide certain barley handling services to UMG at GrainCorp's facility at Pinkenba, Queensland after implementation of the Demerger (see Section 5.10(f) for more information). <p>Other than as described above, there are no commercial arrangements that have been entered into between GrainCorp and UMG in connection with the Demerger.</p>	
When will UMG release its first financial results as a standalone company?	<p>As described in Section 7.12(a)(v), UMG has received an ASIC order, and in-principle confirmation from the ASX that it has granted the necessary waiver from the ASX Listing Rules, to relieve UMG from its financial reporting requirements for the half year ending on 31 March 2020.</p> <p>UMG's results for FY20 are expected to be reported in November 2020.</p>	Section 7.12(a)(v)
Overview of GrainCorp after implementation of the Demerger		
What will the GrainCorp Share price be after the Demerger?	There is no certainty as to the price of GrainCorp Shares after implementation of the Demerger.	Section 4.2(b)
In which stock market index will GrainCorp be eligible for inclusion?	<p>Upon implementation of the Demerger, it is anticipated that, based on GrainCorp's expected free float adjusted market capitalisation, it will remain in the S&P/ASX 200.</p> <p>However, no assurance can be provided that GrainCorp will remain in the index following the Demerger or in the future.</p>	Section 1.4(e)
What operations will GrainCorp have after the Demerger?	<p>After the Demerger, GrainCorp will be an integrated end-to-end supply chain business with:</p> <ul style="list-style-type: none"> operations including grain, oils and other materials accumulation, storage, handling and trading; ownership of storage facilities, rail and road operations and bulk export ports in eastern Australia, edible oils crushing and processing operations in Australia and New Zealand; and origination and marketing teams positioned across four continents. 	Section 3.1
What will GrainCorp's strategy be after the Demerger?	<p>GrainCorp's strategy is focussed on improving and developing its origination network, growing its presence to better connect producers of grains, oilseeds and other products to end-market customers and to drive operational excellence to ensure a lean cost position. The strategy is designed to improve shareholder value through higher earnings and returns, stronger operating cash flow and growth in dividends.</p> <p>The key elements of GrainCorp's strategy are:</p> <ul style="list-style-type: none"> strengthen and evolve the core business; adapt the East Coast Australia (ECA) network to meet grower and end-customer needs; targeted international market expansion; expand our feeds business and capabilities; and customer innovation, <p>and are described in more detail in Section 3.5.</p>	Section 3.5

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
Who will be on the GrainCorp Board after the Demerger?	<p>If the Demerger is implemented, the GrainCorp Board is expected to comprise the following GrainCorp Directors:</p> <ul style="list-style-type: none"> • Peter Richards – non-executive Chairman; • Robert Spurway – Managing Director and Chief Executive Officer; • Daniel Mangelsdorf – non-executive GrainCorp Director and Chair, Safety, Health and Environment Committee; • Donald McGauchie AO – non-executive GrainCorp Director and Chair, Nominations and Remuneration Committee; and • Kathy Grigg – non-executive GrainCorp Director and Chair, Audit and Risk Committee. 	Section 3.7(a)
Who will be in GrainCorp's senior management team after the Demerger?	<p>If the Demerger is implemented, GrainCorp's senior management team will comprise the following employees:</p> <ul style="list-style-type: none"> • Robert Spurway – Managing Director and Chief Executive Officer; • Alistair Bell – Chief Financial Officer; • Stephanie Belton – Group General Counsel & Company Secretary; • Cate Hathaway – Chief People and Transformation Officer; and • Klaus Pamminger – Chief Operating Officer. 	Section 3.7(c)
What will GrainCorp's dividend policy be after the Demerger?	<p>After the Demerger, GrainCorp's dividend policy will be determined by the GrainCorp Board at its discretion and may change over time.</p> <p>After the Demerger, the GrainCorp Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. As a result, GrainCorp expects to distribute between 50% and 70% of underlying NPAT to GrainCorp Shareholders.</p> <p>GrainCorp intends to frank its dividends to the extent practicable. Whether any given dividend can be franked will depend on GrainCorp's franking account balance which will depend on the amount of Australian income tax paid by GrainCorp after the Demerger. Immediately after implementation of the Demerger, GrainCorp's franking account balance is expected to be approximately \$14.9 million.</p>	Section 3.6(b)
What will GrainCorp's capital structure be after the Demerger?	<p>Upon implementation of the Demerger, GrainCorp intends to maintain a conservative capital structure and investment discipline with minimal core debt and net debt to fund the seasonal fluctuations in commodity inventory and other working capital requirements.</p> <p>With effect from implementation of the Demerger, GrainCorp will have committed debt financing facilities of \$1.52 billion. See Section 3.13(k) for further details of the GrainCorp Post-Demerger Facilities.</p>	Sections 3.6(a) and 3.13(k)
What is the Crop Production Contract?	<p>GrainCorp has entered into the Crop Production Contract, which will ensure GrainCorp's cash flows are supported during poor ECA harvest periods, reducing cash flow volatility to enable more stable dividend payments and continued investment in the GrainCorp network through the cycle. In large harvest periods GrainCorp pays the counterparty.</p>	Section 3.6(c)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
Demerger implementation and process		
What are the key steps required to implement the Demerger?	<p>The key remaining steps to implement the Demerger are:</p> <ul style="list-style-type: none"> • approval of the Demerger Scheme by GrainCorp Shareholders at the Demerger Scheme Meeting; • approval of the Capital Reduction by GrainCorp Shareholders at the General Meeting; • Court approval of the Demerger Scheme at the Second Court Hearing; and • lodgement of the Court order with ASIC, which will cause the Demerger Scheme to become Effective. <p>Following lodgement of the Court order with ASIC, the Demerger Scheme will become Effective and will be implemented. This will involve the Demerger Distribution Amount being applied by GrainCorp, on behalf of GrainCorp Shareholders, as consideration for the transfer to Eligible GrainCorp Shareholders and the Sale Agent (on behalf of Selling Shareholders) of one UMG Share for every GrainCorp Share held on the Demerger Scheme Record Date. The UMG Shares to which Ineligible Foreign Holders and Selling Small Shareholders would otherwise be entitled will be transferred to the Sale Agent and sold, as explained in Section 5.6. No amount of cash will be paid to GrainCorp Shareholders as a result of the Demerger Distribution.</p> <p>If the Court approves the Demerger Scheme, UMG Shares are expected to trade separately on the ASX from Tuesday, 24 March 2020, initially on a deferred settlement basis.</p> <p>Trading of UMG Shares on the ASX on a normal settlement basis is expected to commence on Thursday, 2 April 2020.</p> <p>Section 5 contains further details of the Demerger, including a description of the approval thresholds for the Demerger Resolutions and other Conditions Precedent that must be satisfied for the Demerger to proceed.</p>	Section 5
What is the Demerger Distribution?	<p>The Demerger will be effected by the Demerger Distribution and implemented by the Demerger Scheme.</p> <p>The Demerger Distribution, consisting of the Demerger Dividend and the Capital Reduction, is a necessary step in the process of effecting the Demerger.</p> <p>The Demerger Distribution Amount (being the aggregate amount of the Demerger Distribution) will be an amount equal to the market value of all UMG Shares calculated by reference to the VWAP of UMG Shares for the first 5 Business Days starting from the date of the commencement of trading of UMG Shares on the ASX (including on a deferred settlement basis).</p> <p>The Demerger Distribution Amount will be applied on behalf of GrainCorp Shareholders as consideration for the transfer of UMG Shares under the Demerger Scheme.</p>	Section 5.1(c)
What is the Capital Reduction?	<p>The Capital Reduction is a return of capital to Demerger Participants on their GrainCorp Shares equal to the Capital Reduction Amount (being the aggregate amount of the Capital Reduction). The Capital Reduction</p>	Section 5.1(c)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>is an equal capital reduction under section 256B(1) of the Corporations Act.</p> <p>The Capital Reduction Amount will not be paid in cash to GrainCorp Shareholders. Instead, the Capital Reduction Amount will be applied (together with the Demerger Dividend Amount) on behalf of GrainCorp Shareholders as consideration for the transfer of UMG Shares under the Demerger Scheme.</p> <p>The Capital Reduction is conditional on the Demerger Scheme becoming Effective, which means that GrainCorp will not undertake the Capital Reduction unless the Demerger Scheme becomes Effective. The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by GrainCorp Shareholders on the Capital Reduction Resolution.</p> <p>GrainCorp is of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to GrainCorp Shareholders as a whole and will not materially prejudice the ability of GrainCorp to pay its creditors.</p> <p>The Independent Expert has concluded that the Capital Reduction will not materially prejudice existing GrainCorp creditors. A copy of the Independent Expert's Report is set out at Attachment A.</p>	
What is the Demerger Dividend?	<p>The Demerger Dividend is a component of the Demerger Distribution.</p> <p>The Demerger Dividend Amount (being the aggregate amount of the Demerger Dividend) will be equal to the Demerger Distribution Amount less the Capital Reduction Amount.</p> <p>The Demerger Dividend Amount will not be paid in cash to GrainCorp Shareholders. Instead, the Demerger Dividend Amount will be applied (together with the Capital Reduction Amount) on behalf of GrainCorp Shareholders as consideration for the transfer of UMG Shares under the Demerger Scheme.</p> <p>The Demerger Dividend is conditional on the Demerger Scheme becoming Effective, which means that GrainCorp will not declare the Demerger Dividend unless the Demerger Scheme becomes Effective.</p>	Section 5.1(c)
Is the Demerger subject to any conditions?	<p>Implementation of the Demerger is subject to a number of Conditions Precedent, which are, in summary:</p> <ul style="list-style-type: none"> • no change to GrainCorp Directors' recommendation: between the date of this Demerger Scheme Booklet and the Demerger Scheme Meeting, a majority of GrainCorp Directors continues to recommend, and does not change or withdraw their recommendation, to GrainCorp Shareholders to vote in favour of the Demerger Scheme Resolution and the Capital Reduction Resolution; • no termination of Demerger Scheme Implementation Deed or Demerger Deed Poll: as at the Delivery Time, neither the Demerger Scheme Implementation Deed nor the Demerger Deed Poll has been terminated; • GrainCorp Shareholder approval of the Demerger Scheme: the Demerger Scheme Resolution is passed by the Requisite 	Section 5.2 and Attachment C

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>Majority of GrainCorp Shareholders at the Demerger Scheme Meeting;</p> <ul style="list-style-type: none"> • GrainCorp Shareholder Approval of the Capital Reduction: the Capital Reduction Resolution is approved by the Requisite Majority of GrainCorp Shareholders at the General Meeting; • regulatory approvals: all regulatory approvals which are necessary or, in GrainCorp's or UMG's reasonable opinion, desirable in connection with or to implement the Demerger, have been obtained (and not revoked), and any conditions of these approvals are reasonably satisfactory to GrainCorp and UMG; • ASX Listing: ASX approves the admission of UMG to the Official List and Official Quotation of UMG Shares, subject only to the Demerger Scheme becoming Effective and such other conditions that are acceptable to GrainCorp and UMG (each acting reasonably); and • Court approval of the Demerger Scheme: approval of the Demerger Scheme by the Court at the Second Court Hearing (either unconditionally and without alteration or with alterations or conditions consented to by GrainCorp and UMG). <p>The Conditions Precedent to the Demerger are set out in full in the Demerger Scheme, a copy of which is at Attachment C.</p>	
<p>Which GrainCorp Shareholders are eligible to participate in the Demerger?</p>	<p>GrainCorp Shareholders registered on the GrainCorp Register as the holders of GrainCorp Shares at the Demerger Scheme Record Date may be eligible to receive UMG Shares as part of the Demerger, depending on the location of their registered address.</p> <p>GrainCorp Shareholders whose registered address on the GrainCorp Register at the Demerger Scheme Record Date is in one of the following jurisdictions will be Eligible GrainCorp Shareholders:</p> <ul style="list-style-type: none"> • Australia and its external territories, The Bahamas, Canada, Germany, Hong Kong, Isle of Man, New Zealand, the United Kingdom and the United States; or • any other jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder. <p>Ineligible Foreign Holders, being GrainCorp Shareholders whose registered address on the GrainCorp Register at the Demerger Scheme Record Date is outside the jurisdictions listed above, will not receive UMG Shares and should refer to Sections 5.5 and 5.6 for further information about the treatment of their Demerger Entitlements.</p>	<p>Sections 5.5 and 5.6</p>
<p>Will I need to make any payments to participate in the Demerger?</p>	<p>No. Your Demerger Distribution Entitlement will be automatically applied on your behalf under the Demerger Scheme to pay for the UMG Shares to which you are entitled. You do not need to make any separate payment.</p>	<p>Section 5.8</p>
<p>What will GrainCorp Shareholders receive if the Demerger proceeds?</p>	<p>Eligible GrainCorp Shareholders (who are not Selling Small Shareholders) will receive one UMG Share for every GrainCorp Share they hold at the Demerger Scheme Record Date, which is expected to be at 7:00pm on Wednesday, 25 March 2020. Ineligible Foreign</p>	<p>Sections 5.5 and 5.6</p>

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>Holders and Selling Small Shareholders will not receive UMG Shares and should refer to Sections 5.5 and 5.6 for further information about the treatment of their Demerger Entitlements.</p> <p>Immediately after implementation of the Demerger:</p> <ul style="list-style-type: none"> • Eligible GrainCorp Shareholders (and the Sale Agent, on behalf of Selling Shareholders), will hold 90% of the UMG Shares on issue; and • GrainCorp will hold 10% of the UMG Shares on issue. <p>The number of UMG Shares on issue immediately after implementation of the Demerger will be:</p> <ul style="list-style-type: none"> • the number of UMG Shares held by Eligible GrainCorp Shareholders (and the Sale Agent, on behalf of Selling Shareholders); plus • the number of UMG Shares held by GrainCorp reflecting the 10% Retained UMG Shareholding. <p>As a result, the total number of UMG Shares on issue immediately after implementation of the Demerger will be greater than the number of GrainCorp Shares on issue as at the date of this Demerger Scheme Booklet.</p>	
How will I receive the UMG Shares?	GrainCorp will transfer UMG Shares to Eligible GrainCorp Shareholders (other than Selling Small Shareholders) and will enter the name of each Eligible GrainCorp Shareholder (other than Selling Small Shareholders) on the UMG Register as the holder of one UMG Share for every GrainCorp Share they hold at the Demerger Scheme Record Date.	Section 5.8(a)
When will I receive the UMG Shares?	If the Demerger Scheme becomes Effective, Eligible GrainCorp Shareholders (other than Selling Small Shareholders) will have their names entered into the UMG Register, and receive the UMG Shares to which they are entitled, on the Demerger Implementation Date, which is expected to be Wednesday, 1 April 2020.	Section 5.8(b)
Will I be able to trade UMG Shares on the ASX?	<p>UMG will apply for admission to the Official List and for Official Quotation of all UMG Shares on the ASX.</p> <p>The Demerger is conditional on the ASX approving the admission of UMG to the Official List and granting permission for Official Quotation of UMG Shares, subject to the Demerger Scheme becoming Effective and other any conditions that ASX may require and which are acceptable to GrainCorp and UMG (each acting reasonably).</p> <p>If the Demerger becomes Effective, UMG Shares will trade under the code "UMG", and are expected to commence trading on a deferred settlement basis on or about Tuesday, 24 March 2020 and on a normal settlement basis on or about Thursday, 2 April 2020.</p>	Section 5.8(c)
Can I apply for more UMG Shares?	There is no option to apply for more UMG Shares as part of the Demerger. However, once UMG Shares have commenced trading on ASX, you may seek to acquire UMG Shares on market.	Section 5.5
Will I have to pay brokerage fees or stamp duty?	No brokerage fees or stamp duty will be payable by GrainCorp Shareholders on the transfer to them of UMG Shares under the Demerger.	Section 6.8(c)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
Can I choose to receive cash instead of UMG Shares?	<p>No. Under the Demerger, you may not elect to receive cash instead of UMG Shares.</p> <p>However, if you are an Ineligible Foreign Holder, the UMG Shares to which you would have otherwise been entitled under the Demerger will be sold on the ASX by the Sale Agent and the proceeds will be remitted to you, free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax.</p> <p>In addition, Eligible GrainCorp Shareholders who are Small Shareholders may elect to have the UMG Shares to which they are entitled sold on the ASX by the Sale Agent and the Sale Facility Proceeds remitted to them under the Sale Facility. Small Shareholders who do not make an election to participate in the Sale Facility will receive UMG Shares.</p> <p>The amount of money received by each Selling Shareholder will be calculated on an averaged basis so that all Selling Shareholders receive the same price for each UMG Share sold on their behalf (subject to rounding down to the nearest whole Australian cent).</p>	Sections 5.5 and 5.6
What is the Sale Facility?	<p>The Sale Facility will be used to sell UMG Shares that otherwise would have been received by:</p> <ul style="list-style-type: none"> • Ineligible Foreign Holders; and • Small Shareholders who have lodged a valid Sale Facility Election Form (which has not subsequently been withdrawn). <p>Under the Sale Facility, the Sale Agent will, as soon as reasonably practicable (and in any event no more than 20 Business Days after the Demerger Implementation Date), sell those UMG Shares on the ASX. The Sale Facility Proceeds (free of any brokerage costs or stamp duty, but after excluding any interest and deducting any applicable withholding tax) will be despatched to Selling Shareholders. It is expected that the Sale Facility Proceeds will be despatched to Selling Shareholders on or before Friday, 15 May 2020. The Sale Facility Proceeds will be calculated on an averaged basis so that all Selling Shareholders receive the same price for each UMG Share sold on their behalf (subject to rounding down to the nearest whole Australian cent). Selling Shareholders will not receive any interest on the Sale Facility Proceeds in respect of their UMG Shares.</p>	Section 5.6(c)
What if I am an Ineligible Foreign Holder?	<p>A Demerger Participant will be an Ineligible Foreign Holder for the purpose of the Demerger if their registered address on the GrainCorp Register as at the Demerger Scheme Record Date is in a jurisdiction outside one of the following jurisdictions:</p> <ul style="list-style-type: none"> • Australia and its external territories, The Bahamas, Canada, Germany, Hong Kong, Isle of Man, New Zealand, the United Kingdom and the United States; or • any other jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder. <p>Ineligible Foreign Holders are ineligible to receive UMG Shares under the Demerger. If you are an Ineligible Foreign Holder, the number of UMG Shares that you would have been entitled to receive on the</p>	Sections 5.6(a) and 5.6(c)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>implementation of the Demerger will be transferred to the Sale Agent. The Sale Agent will sell those UMG Shares through the Sale Facility. Please refer to Section 5.6(c) for further details of the Sale Facility.</p>	
<p>What if I am a Small Shareholder?</p>	<p>Eligible GrainCorp Shareholders who individually hold 500 or fewer GrainCorp Shares at the Demerger Scheme Record Date will be Small Shareholders.</p> <p>Small Shareholders who do not wish to receive UMG Shares may elect to participate in the Sale Facility by lodging a Sale Facility Election Form (by following the instructions set out in Section 5.6(b)) so that it is received by the GrainCorp Registry by the Sale Facility Election Time, being 5:00pm on Monday, 23 March 2020.</p> <p>If you are a Small Shareholder as at the Demerger Scheme Record Date who has made a valid Sale Facility Election and has not withdrawn that Sale Facility Election, the number of UMG Shares that you would have been entitled to receive on the implementation of the Demerger will be transferred to the Sale Agent. The Sale Agent will sell those UMG Shares through the Sale Facility and remit the Sale Proceeds to you (free of any brokerage costs or stamp duty but excluding any interest and after deducting any applicable withholding tax).</p> <p>The amount of money received by each Selling Shareholder will be calculated on an averaged basis so that all Selling Shareholders receive the same price for each UMG Share sold on their behalf (subject to rounding down to the nearest whole Australian cent).</p> <p>Please refer to Section 5.6(c) for further details of the Sale Facility.</p>	<p>Sections 5.6(b) and 5.6(c)</p>
<p>What is the impact of the Demerger on my GrainCorp Shares?</p>	<p>The number of GrainCorp Shares will not change as a result of the Demerger.</p> <p>If you are an Eligible GrainCorp Shareholder (other than a Selling Small Shareholder) and the Demerger is implemented, you will hold one UMG Share for every GrainCorp Share you held at the Demerger Scheme Record Date.</p>	<p>Section 5.8</p>
<p>When will the Demerger Scheme become Effective?</p>	<p>The Demerger Scheme will become Effective on the date on which the Court order approving the Demerger Scheme is lodged with ASIC. The Demerger Scheme is currently expected to become Effective on Monday, 23 March 2020.</p>	<p>Sections 5.1(b) (Step 3) and 5.8(b)(i)</p>
<p>What happens on the Demerger Implementation Date?</p>	<p>If the Demerger Scheme becomes Effective, on the Demerger Implementation Date:</p> <ul style="list-style-type: none"> • GrainCorp will undertake the Capital Reduction in accordance with the Capital Reduction Resolution; • the GrainCorp Board will pay the Demerger Dividend; • GrainCorp will apply the Demerger Distribution Entitlement in respect of each Demerger Participant in accordance with the terms of the Demerger Scheme; and • GrainCorp will transfer the UMG Shares to Eligible GrainCorp Shareholders (other than Selling Small Shareholders) and the Sale Agent (in respect of Selling Shareholders) and register the transfers in the UMG Register. 	<p>Sections 5.1(b) (Step 5) and 5.8(b)</p>

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	The Demerger Implementation Date is currently expected to be Wednesday, 1 April 2020.	
What are the costs of the Demerger?	The Demerger will result in significant one-off transaction costs, expected to be approximately \$49 million. Approximately \$20 million of these costs were incurred in the period to 30 September 2019, \$15 million of these costs are expected to be incurred in the period from 1 October 2019 up to the time of the Meetings, with \$14 million of these remaining costs expected to be incurred after the Meetings (and are conditional on the Demerger Resolutions being approved by the Requisite Majorities at the Meetings).	Section 1.4(b)
What happens if the Demerger does not proceed?	<p>If the Demerger does not proceed:</p> <ul style="list-style-type: none"> the Capital Reduction will not be undertaken by GrainCorp; the GrainCorp Board will not declare the Demerger Dividend; Eligible GrainCorp Shareholders will not receive UMG Shares (or, in the case of Selling Shareholders, they will not receive the Sale Facility Proceeds from the sale of UMG Shares); GrainCorp Shareholders will retain their current holding of GrainCorp Shares (unless they otherwise sell their GrainCorp Shares); GrainCorp will continue to own UMG and UMG will continue to operate as a division of GrainCorp; the changes to the GrainCorp Board and executive leadership team described in Sections 2.10 and 3.7 will not occur; the advantages of the Demerger described in Section 1.2 will not be realised; the disadvantages and risks of the Demerger described in Sections 1.4 and 4 will not arise; the GrainCorp Board may consider alternatives for the UMG Business; and significant one-off transaction costs in relation to the Demerger (as described in Section 1.4(b)) will have already been incurred by GrainCorp and UMG. 	Section 5.2(b)
Demerger Scheme Meeting, General Meeting and voting on the Demerger		
When and where will the Meetings be held?	<p>Demerger Scheme Meeting</p> <p>The Demerger Scheme Meeting will be held at 10:00am on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.</p> <p>General Meeting</p> <p>The General Meeting will be held at 10:30am (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.</p>	Sections 5.4(a) and 5.4(b)
What am I being asked to vote on at the Meetings?	<p>Demerger Scheme Meeting</p> <p>At the Demerger Scheme Meeting, you are being asked to vote on whether to approve the Demerger Scheme by voting in favour of, or against, the Demerger Scheme Resolution. The Demerger Scheme</p>	Sections 5.4(a) and 5.4(b)

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>Resolution is set out in the Notice of Demerger Scheme Meeting in Attachment E.</p> <p>General Meeting</p> <p>The Capital Reduction (together with the Demerger Dividend) will form the consideration for the transfer of the UMG Shares to GrainCorp Shareholders (and the Sale Agent, on behalf of Selling Shareholders) under the Demerger.</p> <p>At the General Meeting, you are being asked to vote on whether to approve the Capital Reduction by voting in favour of, or against, the Capital Reduction Resolution.</p> <p>The Demerger Scheme can only be implemented if the Capital Reduction Resolution is passed by the Requisite Majority at the General Meeting.</p> <p>The Capital Reduction is conditional on the Demerger Scheme becoming Effective. This means that GrainCorp will not undertake the Capital Reduction unless the Demerger Scheme becomes Effective.</p> <p>The Capital Reduction Resolution is set out in the Notice of General Meeting in Attachment F.</p>	
<p>What are the voting thresholds required to approve the Demerger Scheme and Capital Reduction?</p>	<p>Demerger Scheme Meeting</p> <p>For the Demerger Scheme to proceed, votes “in favour of” the Demerger Scheme Resolution at the Demerger Scheme Meeting must be received from a Requisite Majority of Shareholders. A Requisite Majority for the Demerger Scheme Resolution is:</p> <ul style="list-style-type: none"> • a majority in number (more than 50%) of GrainCorp Shareholders who are present and voting either in person or by proxy, attorney or, in the case of corporate GrainCorp Shareholders, by corporate representative; and • at least 75% of the total number of votes cast on the resolution to approve the Demerger Scheme. <p>General Meeting</p> <p>For the Capital Reduction to be approved, votes “in favour of” the Capital Reduction Resolution at the General Meeting must be received from a Requisite Majority of votes cast at the General Meeting, being at least 50% of the votes cast on the resolution by GrainCorp Shareholders who are present and voting at General Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative.</p>	<p>Sections 5.4(a) and 5.4(b)</p>
<p>Who can vote at the Meetings?</p>	<p>GrainCorp Shareholders who are registered on the GrainCorp Register at 10:00am on Saturday, 14 March 2020 are entitled to vote at the Demerger Scheme Meeting and the General Meeting.</p>	<p>Sections 5.4(a) and 5.4(b)</p>
<p>How do I vote at the Meetings?</p>	<p>Demerger Scheme Meeting</p> <p>You may vote in person by attending the Demerger Scheme Meeting to be held at 10:00am on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.</p> <p>Alternatively, you may vote lodging a Demerger Scheme Meeting Proxy Form. The Demerger Scheme Meeting Proxy Form can be lodged in</p>	<p>Page 13 (“How to vote on the Demerger Resolutions”).</p> <p>Sections 5.4(a) and 5.4(b)</p>

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
	<p>person, by mail, by fax or electronically by visiting the GrainCorp Registry's website, www.linkmarketservices.com.au.</p> <p>You can also vote by appointing a corporate representative (if you are a corporate shareholder) or an attorney.</p> <p>Full details of how to vote at the Demerger Scheme Meeting and how to lodge a Demerger Scheme Meeting Proxy Form, corporate representative appointment or power of attorney are set out on page 13 ("How to vote on the Demerger Resolutions").</p> <p>General Meeting</p> <p>You may vote in person by attending the General Meeting to be held at 10:30am (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.</p> <p>Alternatively, you may vote by lodging a General Meeting Proxy Form. The General Meeting Proxy Form can be lodged in person, by mail, by fax or electronically by visiting the GrainCorp Registry's website, www.linkmarketservices.com.au.</p> <p>You can also vote by appointing a corporate representative (if you are a corporate shareholder) or an attorney.</p> <p>Full details of how to vote at the General Meeting and how to lodge a proxy form, corporate representative appointment or power of attorney are set out on page 13 ("How to vote on the Demerger Resolutions").</p>	<p>Notice of Demerger Scheme Meeting at Attachment E</p> <p>Notice of General Meeting at Attachment F</p>
<p>What if I do not vote at the Meetings or do not vote in favour of the Demerger Resolutions?</p>	<p>If GrainCorp Shareholders who support the Demerger do not vote at the Meetings, there is a risk the Demerger will not be approved and, therefore, will not be implemented.</p> <p>If you do not vote or vote against the Demerger Resolutions, but these resolutions are approved by the Requisite Majorities of GrainCorp Shareholders, then, subject to the other Conditions Precedent to the Demerger (including Court approval at the Second Court Hearing) being satisfied, the Demerger will be implemented and binding on GrainCorp, UMG and all GrainCorp Shareholders, including those who did not vote or voted against the Demerger Resolutions.</p>	<p>None</p>
<p>When will the results of the Meetings be known?</p>	<p>The results of the Demerger Scheme Meeting and General Meeting will be available shortly after the conclusion of the Demerger Scheme Meeting and General Meeting and will be announced to ASX once available.</p>	<p>None</p>
<p>Tax implications</p>		
<p>What are the taxation implications of the Demerger for GrainCorp Shareholders?</p>	<p>A general summary of the Australian income tax, goods and services tax and stamp duty implications of the Demerger for certain GrainCorp Shareholders is set out in Section 6. As this summary is necessarily general in nature, GrainCorp Shareholders should consult with a professional tax advisor regarding their particular circumstances.</p> <p>The taxation consequences for each GrainCorp Shareholder may vary and each GrainCorp Shareholder is encouraged to seek their own professional advice in relation to the Australian and, if applicable, foreign tax implications of participating in the Demerger.</p>	<p>Section 6</p>

Question	Answer	Relevant section(s) of this Demerger Scheme Booklet
Further information		
Who can I contact if I have further questions about this Demerger Scheme Booklet or the Demerger?	If you have any further questions about this Demerger Scheme Booklet or the Demerger, please call the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time). Please note that the GrainCorp Shareholder Information Line cannot provide any financial, taxation or investment advice and cannot give an opinion on the merits of the Demerger. If you have any questions about your individual financial or taxation circumstances, please contact your financial, legal, taxation or other professional advisers.	None

SECTION 1

Advantages and disadvantages of the Demerger and other considerations relevant to your vote

1.1 Introduction and GrainCorp Directors' recommendation

This Section 1 summarises the material advantages and disadvantages of the Demerger that GrainCorp Shareholders should consider when deciding whether or not to vote in favour of the Demerger Resolutions required to implement the Demerger. Section 1.2 below also summarises the alternatives to the Demerger that were considered by GrainCorp.

The GrainCorp Directors are of the view that the advantages of the Demerger outweigh the disadvantages and risks of the Demerger. Each GrainCorp Director recommends that GrainCorp Shareholders vote in favour of Demerger Resolutions at the Demerger Scheme Meeting and the General Meeting, and intends to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Demerger Resolutions. The number of GrainCorp Shares held by or on behalf of each GrainCorp Director as at the date of this Demerger Scheme Booklet is set out in Section 7.1.

GrainCorp Shareholders should carefully consider the following advantages and disadvantages of the Demerger, together with the potential risks associated with the Demerger and investments in UMG and GrainCorp after the Demerger set out in Section 4 and the Independent Expert's Report contained in Attachment A, when deciding whether or not to vote in favour of the Demerger Resolutions required to implement the Demerger.

1.2 Alternatives considered by GrainCorp

The GrainCorp Board believes that, over time, the Demerger will deliver greater value to GrainCorp Shareholders than the status quo or other potential options. The GrainCorp Board has reached this view after considering a range of potential options, which are summarised below.

(a) Status quo

The UMG Business and the GrainCorp Business are both agribusinesses. However, they are different in terms of risk profile, commodity focus and geographic exposure. The priorities of UMG are different from the priorities of the other businesses that GrainCorp operates as at the date of this Demerger Scheme Booklet. The GrainCorp Board is of the view that the Demerger will enhance shareholder value by enabling each of UMG and GrainCorp to better pursue their own growth agendas and strategic priorities as separate, ASX-listed companies.

(b) Divestment of the Malt Business

The GrainCorp Board has considered the merits of the sale of all or parts of the UMG Business to a third party. In the GrainCorp Board's view, a divestment of the UMG Business would be unlikely to realise the full underlying value of UMG for GrainCorp Shareholders and would involve additional transaction uncertainty. In the event of a divestment of the UMG Business, GrainCorp Shareholders would not retain an interest in UMG and may not benefit from any further upside or growth opportunities, as described in more detail in Section 1.3.

As GrainCorp announced to the ASX on 3 December 2018, GrainCorp undertook a portfolio review, which involved an assessment of GrainCorp's business portfolio to develop and implement strategies to unlock and create value for GrainCorp Shareholders (**Portfolio Review**). As GrainCorp subsequently announced to the ASX on 4 April 2019, as part of the Portfolio Review, GrainCorp engaged in discussions with several parties that approached GrainCorp and expressed an interest in acquiring part or parts of the GrainCorp portfolio, including UMG. As part of these discussions, GrainCorp received non-binding, indicative offers to acquire part or parts of the GrainCorp portfolio (including UMG) from several parties. However, as a result of these discussions, a proposal to acquire part or parts of the GrainCorp portfolio on terms and conditions acceptable to the GrainCorp Board did not emerge.

(c) Initial public offering

The GrainCorp Board considered an initial public offering (**IPO**) of UMG but determined that it would be unlikely to realise the full underlying value of UMG for GrainCorp and GrainCorp Shareholders as it would give rise to substantial additional costs (including tax costs) compared to the Demerger. An IPO would also involve significant transaction uncertainty and the proceeds received by GrainCorp would depend on investor sentiment and the prevailing share market conditions at the time of the IPO, which would be outside of GrainCorp's control.

(d) Demerger

The GrainCorp Board selected the Demerger over the other available alternatives described in Sections 1.2(a) to 1.2(c) above as the GrainCorp Board believes, after taking into account all relevant matters (including certainty of outcome and the risks and costs associated with implementation), that it will deliver greater value to GrainCorp Shareholders over time than these alternatives.

The Demerger allows Eligible GrainCorp Shareholders to retain an interest in the UMG Business, benefit from future growth opportunities and make their own decisions to continue to hold their investment in one, both or neither of GrainCorp and UMG, as described in more detail in Section 1.3.

As described in more detail in Section 1.3(e) below, the Demerger also does not preclude other interested parties from making an offer to GrainCorp or UMG after the Demerger, which may provide even greater value to GrainCorp Shareholders and/or UMG Shareholders at the relevant time.

The other advantages of the Demerger are described in Section 1.3 below.

1.3 Advantages of the Demerger and reasons to vote in favour of the Demerger

(a) Separate boards and management teams empowered to pursue independent strategies and operational initiatives

Following the Demerger, GrainCorp and UMG will be two ASX-listed agribusinesses facing different industry dynamics and opportunities. Each will be able to pursue their own strategies and operational initiatives after the Demerger to drive long-term shareholder value.

In particular, potential initiatives that may not have been prioritised in GrainCorp before the Demerger will be able to be pursued by the independent, smaller businesses of UMG and GrainCorp after the Demerger as a result of more focussed management attention on each business' operations. Each business will also have the opportunity to independently select capital allocation strategies and the projects to progress that are in the best interests of that business after the Demerger.

See Sections 3.7 and 2.10 for additional information on the boards and senior management teams of GrainCorp and UMG (respectively) after the Demerger.

(b) Acceleration of simplification and cost reduction initiatives

The Demerger will enable and accelerate a number of business process simplification and cost reduction initiatives across GrainCorp after the Demerger. These initiatives are expected to deliver an annualised cost reduction of approximately \$20 million within 12 months after implementation of the Demerger and include the integration of the grains and oils business units and core business simplification initiatives driven by the separation of UMG. See Section 3.5(a) for more information on these business simplification and cost reduction initiatives.

(c) Tailored capital structures and financial policies appropriate for each business' unique characteristics

Following the Demerger, both UMG and GrainCorp are expected to maintain strong investment grade capital structures, with appropriate dividend policies to deliver attractive returns to shareholders. After

the Demerger, UMG and GrainCorp will be independent, ASX-listed companies with separate debt facilities, which will allow each business to implement a capital structure and financial policies that are appropriate for each business' characteristics and strategies. After the Demerger, GrainCorp will also continue to benefit from the Crop Production Contract, which will support cash flows during poor grain harvest periods (see Section 3.6(c) for further information).

See Section 2.8 and 3.6 for more information on UMG's and GrainCorp's capital structures after implementation of the Demerger.

(d) Separate ASX-listed entities will appeal to investors with different investment strategies and preferences

The operating characteristics and financial policies of each of the UMG Business and the GrainCorp Business differ and may appeal to different types of investors. If the Demerger is not implemented and UMG remains a subsidiary of GrainCorp, investors who seek an investment in one of the businesses but not the other will not be able to choose which company to invest in.

Once UMG and GrainCorp are separate, ASX-listed companies on implementation of the Demerger, existing and future GrainCorp Shareholders and UMG Shareholders will be able to evaluate the individual financial performance, strategies and other business characteristics of UMG and GrainCorp, and will generally have greater investment choice and the opportunity to manage their exposure to the different investment opportunities of UMG and GrainCorp depending on their own investment objectives.

(e) Potential for shareholders to obtain control premia from an acquirer given interest in the GrainCorp portfolio

Given the interest in its portfolio that GrainCorp received after announcing the Portfolio Review to the ASX on 3 December 2018 (as described in Section 1.2(b) above), if the Demerger is implemented, there will remain the potential for GrainCorp, UMG or other GrainCorp portfolio businesses to be sold to a third party acquirer, potentially delivering a control premium that may deliver even greater value to GrainCorp Shareholders and/or UMG Shareholders at the relevant time. However, as described in Section 1.2(b) above, as at the date of this Demerger Scheme Booklet, GrainCorp has not received a proposal to acquire part or parts of the GrainCorp portfolio on terms and conditions acceptable to the GrainCorp Board, and there is no certainty that any offers in respect of GrainCorp, UMG or other GrainCorp portfolio businesses will be received after the Demerger is implemented.

1.4 Disadvantages of the Demerger and reasons not to vote in favour of the Demerger

(a) Separate entities will be smaller and less diversified

As a result of the Demerger, GrainCorp (as it exists as at the date of this Demerger Scheme Booklet) will be split into two separate, ASX-listed companies, each of which will be substantially smaller than GrainCorp as at the date of this Demerger Scheme Booklet.

This may result in some loss of scale, although the Demerger is expected to enable and accelerate a number of business simplification improvements for GrainCorp, as described in Section 3.5(a).

In addition, the performance of the UMG Business has been relatively uncorrelated with the remainder of the GrainCorp Business and, after the Demerger, each of GrainCorp and UMG will be more a focussed business compared with GrainCorp as at the date of this Demerger Scheme Booklet. As a result, GrainCorp will be a less diversified business than it is at the date of this Demerger Scheme Booklet.

If the Demerger is implemented, as separate, ASX-listed companies, GrainCorp and UMG may have increased exposure to fluctuations in financial markets as a result of their smaller size and reduced diversification.

(b) There will be significant one-off transaction costs associated with the Demerger

The Demerger will result in significant one-off transaction costs, expected to be approximately \$49 million. Approximately:

- (i) \$20 million of these costs were incurred in the period to 30 September 2019;
- (ii) \$15 million of these costs are expected to be incurred in the period from 1 October 2019 up to the time of the Meetings; and
- (iii) \$14 million are expected to be incurred after the Meetings (and are conditional on the Demerger Resolutions being approved by the Requisite Majorities at the Meetings).

For further information about these transaction costs, see Sections 3.13(j)(ii) and 7.11.

(c) Ongoing corporate and operating costs

As a result of the Demerger, GrainCorp and UMG will incur incremental corporate and operating costs of approximately \$17 million per annum in aggregate, most of which will be incurred by UMG (as described below).

Following the Demerger, UMG will be a standalone, ASX-listed company, which will result in UMG incurring additional corporate and operating costs of approximately \$15 million per annum. These costs will include fees associated with the ASX Listing (and ongoing ASX listing fees), the UMG Registry, maintaining a separate board of directors and senior management team, and operating company secretarial, treasury and other corporate functions required as a result of UMG becoming a standalone ASX-listed company.

Incremental standalone costs for GrainCorp include insurance and employee related costs.

See Sections 3.13(h) and 2.17(e) for additional information about the incremental corporate costs that will be incurred by GrainCorp and UMG (respectively) as a result of implementation of the Demerger.

(d) Increased financing costs

Following the Demerger, each of UMG and GrainCorp will have separate debt financing facilities, which may incur total costs that exceed GrainCorp's current financing costs. See Section 2.17(i) for more information on the UMG Facilities and Section 3.13(k) for further information on the GrainCorp Post-Demerger Facilities.

(e) Negative changes to index inclusion and weighting

Following the Demerger, each of UMG and GrainCorp are likely to have reduced weighting in various stock market indices, compared with GrainCorp as at the date of this Demerger Scheme Booklet. As a result, there may be less trading liquidity in UMG Shares and GrainCorp Shares following the Demerger.

It is anticipated that, upon implementation of the Demerger:

- (i) based on UMG's expected free float adjusted market capitalisation, it will be eligible for inclusion in the S&P/ASX 200 (however, no assurance can be provided that UMG will enter the index or will remain in the index in the future); and
- (ii) based on GrainCorp's expected free float adjusted market capitalisation, it will remain in the S&P/ASX 200 (however, no assurance can be provided that GrainCorp remain in the index following the Demerger or in the future).

- (f) Some GrainCorp Shareholders will not be eligible to receive UMG Shares as part of the Demerger and some UMG Shareholders may be unable to continue to hold UMG Shares after the Demerger**

GrainCorp Shareholders who are Ineligible Foreign Holders will not receive UMG Shares under the Demerger. Instead, UMG Shares that would otherwise be transferred to Ineligible Foreign Holders on implementation of the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Foreign Holders, as described in more detail in Section 5.6.

In addition, after the Demerger is implemented, certain GrainCorp Shareholders may not be permitted to continue to hold their GrainCorp Shares, and certain UMG Shareholders may not be permitted to hold their UMG Shares, under the terms of their investment mandates.

1.5 Other relevant considerations

- (a) The Demerger may be implemented even if you vote against it**

Even if you do not vote, or vote against the Demerger, the Demerger may still be implemented if the Demerger Resolutions are approved by the Requisite Majorities of GrainCorp Shareholders and, subsequently, the Court. If this occurs, Eligible GrainCorp Shareholders (who are not Selling Small Shareholders) will be transferred UMG Shares in satisfaction of their Demerger Entitlements even if they did not vote on, or voted against, the Demerger Scheme and related Capital Reduction.

- (b) Conditions Precedent**

The Demerger is subject to a number of Conditions Precedent, which are summarised in Section 5.2(a). If these Conditions Precedent are not satisfied, the Demerger will not proceed, even if it is approved by GrainCorp Shareholders.

As at the date of this Demerger Scheme Booklet, none of the Conditions Precedent have been satisfied. As at the date of this Demerger Scheme Booklet, the GrainCorp Board is not aware of any circumstances that would cause a Condition Precedent not to be satisfied.

SECTION 2

Information on UMG

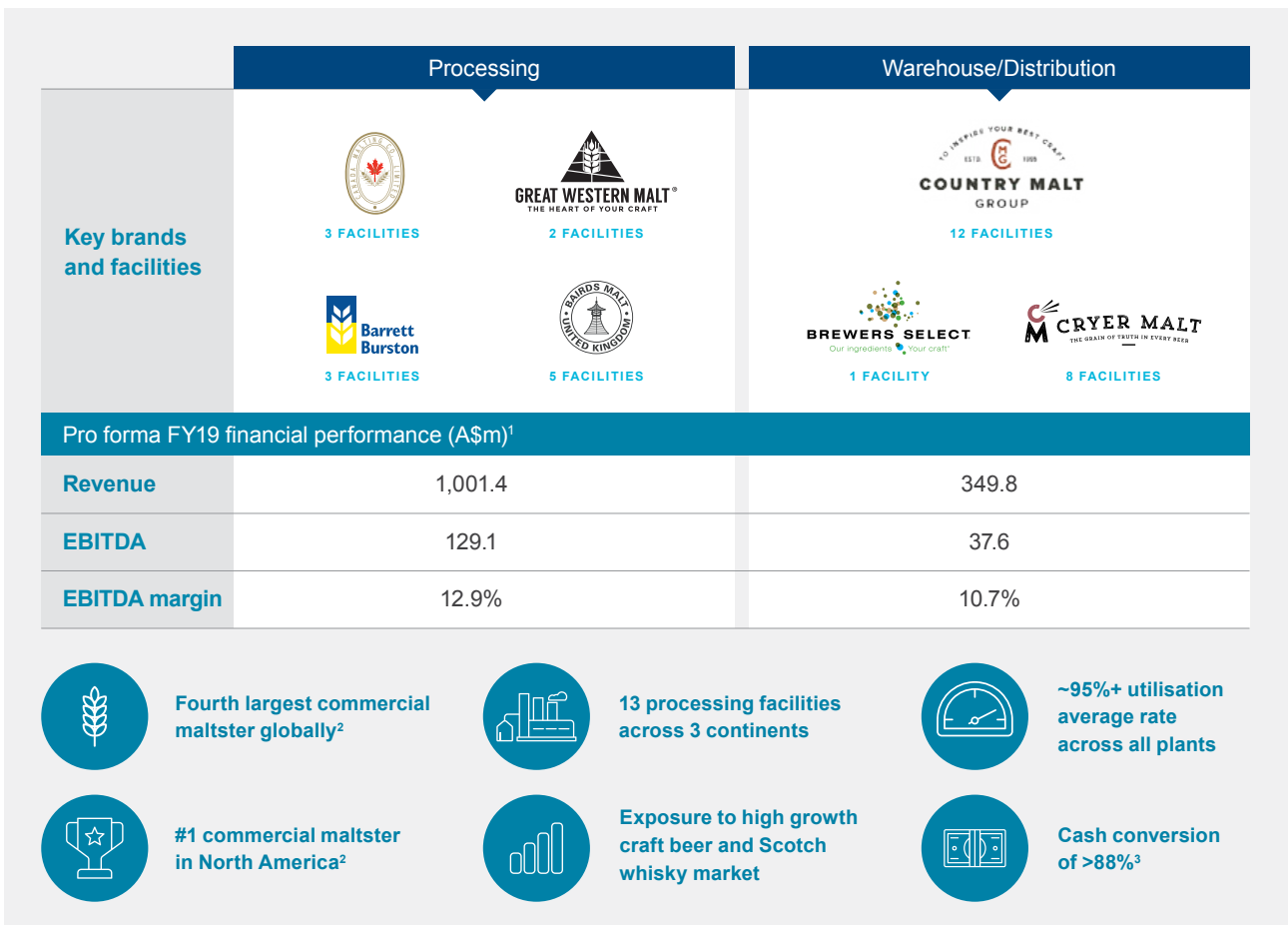
2.1 UMG history and background

UMG is the fourth largest commercial maltster globally, with approximately 1.25Mtpa of capacity and more than 95% average utilisation across 13 processing plants in Canada, United States of America (US), Australia and the United Kingdom (UK). UMG also operates an international distribution business, which provides a full service offering for craft brewers and distillers, including malt, hops, yeast, adjuncts and related products.

UMG generates earnings along the malt supply chain, from barley procurement and handling, malt processing, and sale and distribution of value-added malt products. UMG benefits from having high quality, low operating cost processing assets that are strategically located in premium barley growing regions, allowing it to source high quality barley and access a diverse range of customers, including global brewers, craft brewers, distillers and food companies.

As at 30 September 2019, UMG had approximately 970 employees globally. Following the Demerger, UMG will be listed on the ASX, with operational headquarters in Vancouver, Washington. UMG will maintain a corporate office in Sydney, Australia comprising listed office activities.

Figure 2.1(a): Overview of UMG



¹ Total pro forma EBITDA includes an additional A\$6.5m of standalone corporate costs.

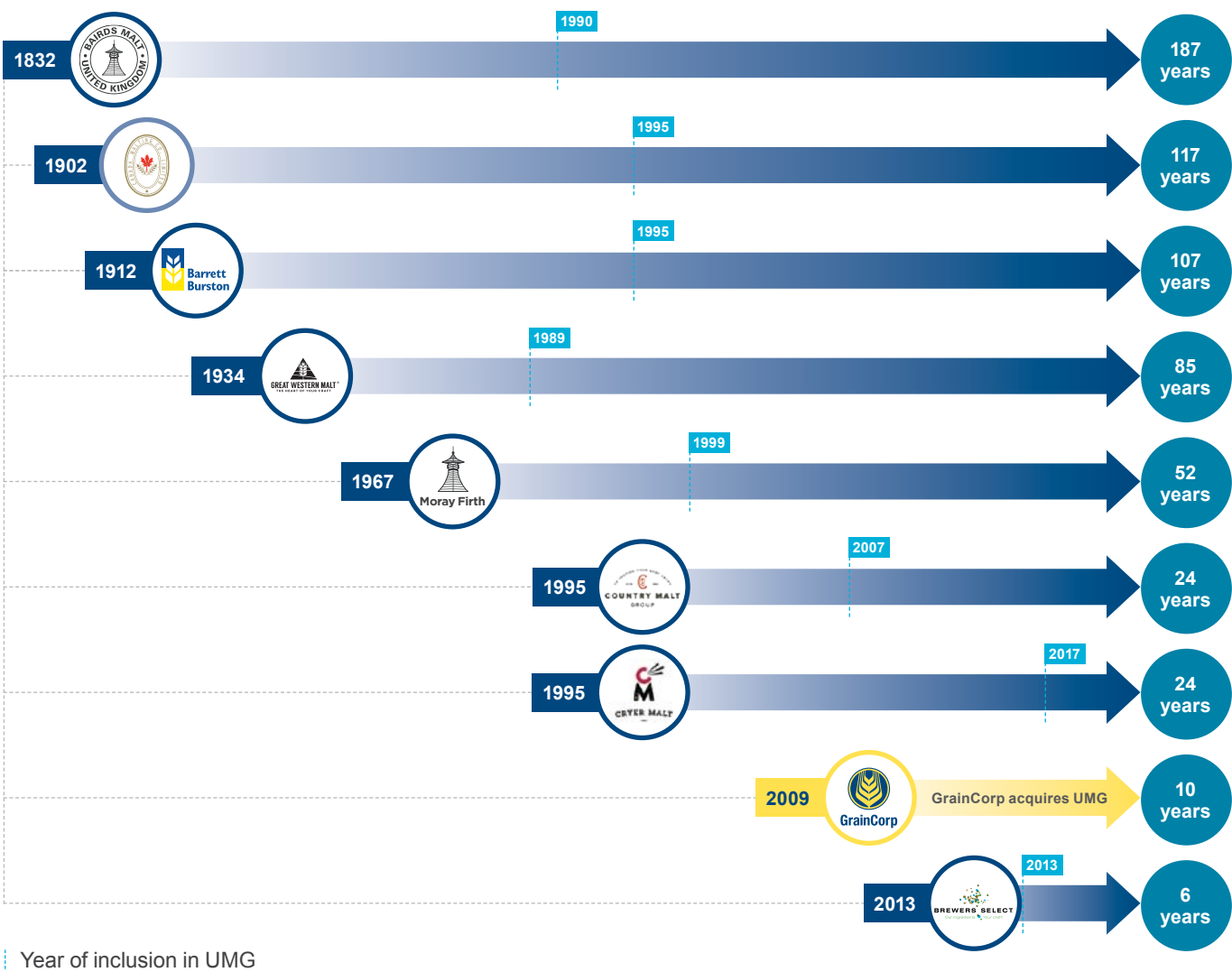
² By capacity, excludes brewers. D. Huvel Consulting, World's Largest Commercial Malign Companies, May 2019.

³ Calculated as operating cash flow (before net capital expenditure, finance costs and tax) / EBITDA. Represents average over the last four years.

GrainCorp acquired UMG in 2009 and has invested heavily in the business over the past decade to deliver increased capacity and improved financial performance. UMG markets its products under a range of brands, each with a strong heritage and identity with its respective customer base and geography. These brands and their facilities are outlined in Figure 2.1(a) above.

A brief history of UMG's brands is set out in Figure 2.1(b) below

Figure 2.1(b): UMG's long history of established brands



2.2 Key strengths of UMG

(a) Attractive market dynamics in established areas of strength

UMG has strong market positions in high growth segments within the broader malt industry, enabling it to achieve stable earnings growth in an industry where growth in traditional end-markets has been flat.

(i) *Craft brewing*

UMG has established itself as one of the leading malt suppliers to the craft brewing sector, supported by a distribution network comprising 21 warehouses (both company-operated and through third party logistics providers) and approximately 20 international craft distribution partnerships throughout North America, South America, Europe, Asia and Australia. UMG is well placed to leverage its experience gained in existing markets to benefit from growing consumer demand for products that offer quality, strong provenance or a local story.

The craft brewing market has grown rapidly over the last decade, particularly in the US, driven by consumer demand for premium beer and a preference for authenticity and variety. Growth in craft brewing has supported the malt industry as malt inclusion in craft beer is higher compared to mainstream beer.

Craft beer production in the US increased at a CAGR of 10.7% between 2013 and 2018, while over the same period, the retail dollar value of craft beer sales increased at a CAGR of 14.1%¹. Accordingly, craft beer's share of total beer volume produced in the US increased from 7.8% to 13.2% between 2013 and 2018, and craft beer's share of total beer retail dollar sales in the US grew from 14.3% in 2013 to 24.1% in 2018¹. In calendar year 2018, US craft beer production grew at 4%², reflecting continued growth, albeit at a lower rate.

Despite this momentum, craft brewing remains underpenetrated in a number of US states, highlighting potential for continued growth in the US market. As shown in Figure 2.2(a)(i) below, there are material variances in penetration between states in the US. Factors contributing to this include:

- **Differences in alcohol legislation** – historically, strict home brewing laws have limited the growth of craft beer production. Without the ability to experiment with different beer flavours and ingredients on a small scale before committing to opening a brewery, the growth of craft beer in such states has been limited. Mississippi and Alabama were the final two US states to legalise home brewing (both in 2013³), and rank third and second-last, respectively, in per capita craft beer production. Conversely, craft brewing in states such as Pennsylvania has benefitted from progressive legislation such as the removal of certain brewery licensing requirements;
- **Population demographics** – socioeconomic status has a strong bearing on a state's craft beer production, with low producing states such as Mississippi, Alabama and West Virginia all ranking in the bottom 10 states on a household income basis in the US; and

¹ Brewers Association. Volume by craft brewers represents total taxable production.

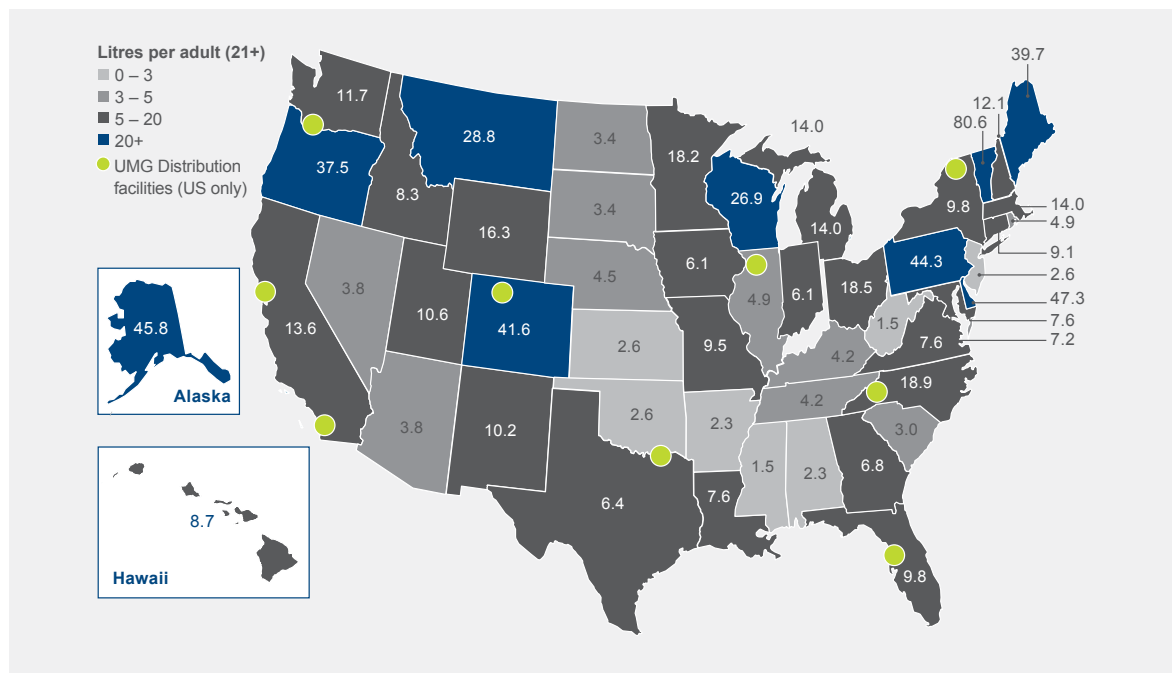
² Brewers Association

³ Brewers Association

- **Access to hop varieties** – the majority of high-quality American hop varieties (a key ingredient in craft beer) grow in the Midwest and North-western America. Being in close proximity to these key inputs increases the ability of small-scale craft breweries to operate and experiment with new recipes.

UMG's strong market position in the US craft beer industry means that it is well-positioned to capture future upside potential. Whilst the US craft beer industry is expected to grow at a CAGR of 1.5% between 2018 and 2024⁴, high growth opportunities exist in underpenetrated states, particularly as regulatory reform emerges.

Figure 2.2(a)(i): US craft beer production by state, 2018⁵



Outside of North America, craft beer penetration remains in its infancy, however, the craft brewing market is benefiting from strong growth in emerging markets such as Latin America and Asia⁶. UMG has distribution partners in Latin America and Southeast Asia and its strategy is to focus on growth opportunities from high margin bagged business in these regions.

⁴ IBISWorld, *Craft Beer Production in the US OD4302*, December 2018.

⁵ Brewers Association

⁶ Technavio, *Global Craft Beer Market - Geographical Segmentation and Growth Forecast by Technavio*, August 2017.

UMG considers the following factors when assessing entry into new markets:

- (A) Craft beer consumption growth rates;
- (B) Ease of doing business;
- (C) Established logistics infrastructure;
- (D) Level of competition and brand establishment;
- (E) Disposable income levels to support consumption of higher-priced craft beer; and
- (F) Beer drinking culture.

(ii) *Malt distilling*

UMG has three malting plants strategically located in key barley growing regions and in close proximity to distillers in Scotland. Having this proximity to customers, and the ability to provide locally sourced and processed malt, gives UMG a major freight advantage over competitors. UMG has repositioned its European strategy to focus on the distilling market, particularly in Scotland, where the Scotch whisky market is expected to grow at a CAGR of 1.9% – 4.2% between 2018 and 2023, predominantly driven by demand from emerging markets^{7,8}.

Numerous leading single malt brands are expanding their distilling capacity in Scotland, which will support demand for high-quality, locally produced malt.

Announced expansions include:

- (A) Glenfiddich (William Grant and Sons) from 10 million litres to 18 million litres (commissioning scheduled for 2019);
- (B) The Glenlivet (Chivas) from 10 million litres to 20 million litres (commissioned at the end of 2018); and
- (C) The Macallan (Edrington) from 10 million litres to 15 million litres (currently being commissioned).

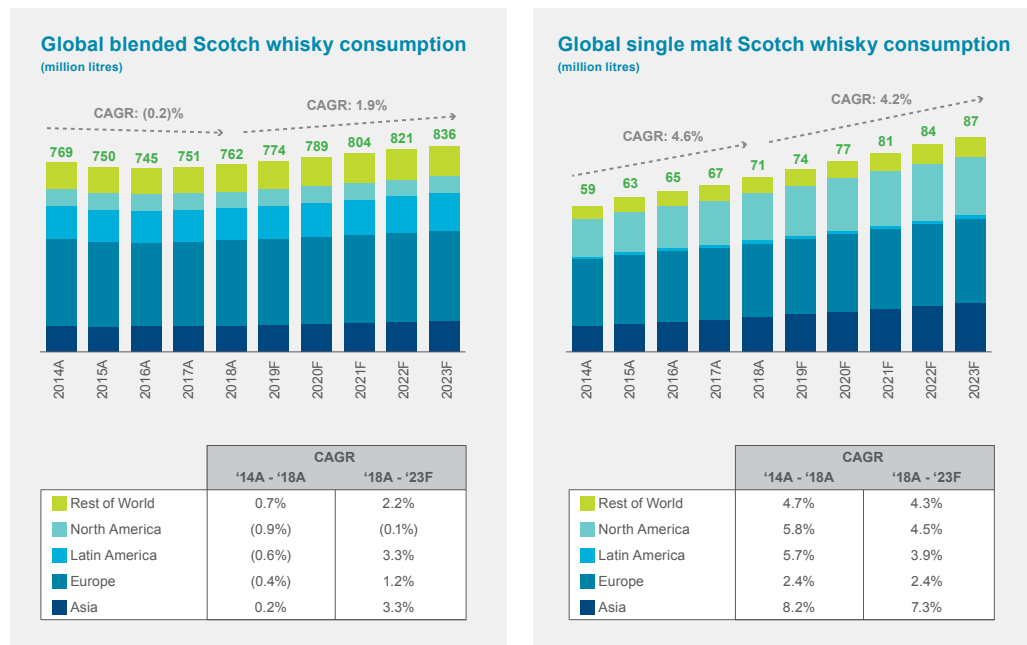
Diageo also announced in April 2018 a £150 million investment over three years to transform its Scotch whisky visitor experiences, one of the largest single investments ever made into Scotland's whisky tourism sector.

In October 2018, GrainCorp announced a £51 million investment to expand UMG's Scottish malting capacity in response to strong sector growth and customer demand.

⁷ Euromonitor, *Global Single Malt Scotch Whisky Consumption Volume*, May 2019.

⁸ Euromonitor, *Global Blended Scotch Whisky Consumption Volume*, May 2019.

Figure 2.2(a)(ii): Global blended Scotch whisky consumption and global single malt Scotch whisky consumption^{7,8}



(b) Strong market positions and malting assets that are difficult to replicate

UMG has established itself as the fourth⁹ largest commercial maltster globally, with approximately 1.25Mtpa of capacity and approximately 95%+ average utilisation across 13 processing plants in Canada, the US, Australia and the UK. UMG's customers comprise global brewers, craft brewers, distillers and food companies. UMG is a major supplier to the craft brewing industry in the regions in which it operates, providing a full-service offering which includes malt, hops, yeast, adjuncts and related products.

UMG's plants are located in close proximity to critical transport infrastructure such as rail, roads and ports, to maximise efficiency and reduce transportation costs.

(c) Leading craft brewing distribution platform

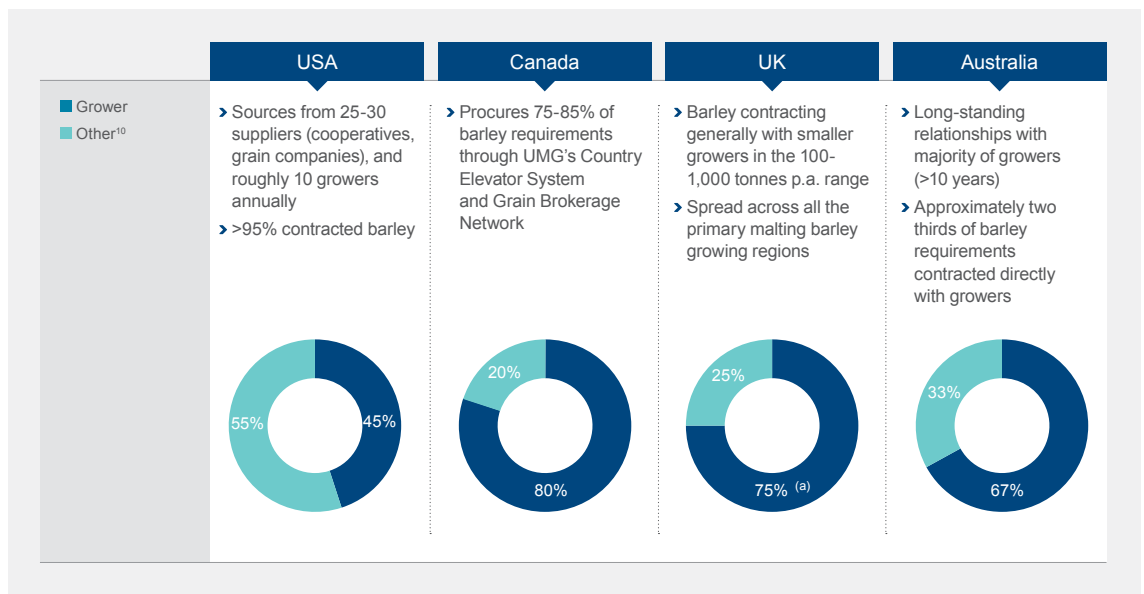
With a distribution network of 21 warehouses spanning Canada, the US, the UK, Australia and New Zealand, UMG is one of the leading suppliers to the craft brewing sector. UMG's distribution footprint has enabled it to provide high quality service to regional, micro and brewpub customers, particularly in the North American craft brewing market. Its distribution platform is complemented by approximately 20 international craft distribution partnerships throughout North America, South America, Europe, Asia and Australia.

⁹ By capacity. Excludes brewers. D. Huvet Consulting, *World's Largest Commercial Malting Companies*, May 2019.

(d) Integrated supply chain with strong barley sourcing capability

UMG has strong end-to-end supply chains in each of its geographies, from barley origination to malt processing, for domestic and export supply. With malting assets strategically located across major barley regions and having established long-term direct relationships with growers, UMG is able to procure high quality malting barley and efficiently manage its sourcing requirements throughout the year. Further, UMG owns its barley storage infrastructure in Canada, with a network of nine country elevators.

Figure 2.2(d): UMG's barley sourcing capability



(a) ~85% for Scotland, ~50% for England.

(e) High quality customer base diversified by product, end-market and geography

UMG's customer base is diversified by product, end-market and geography, and comprises a range of high-quality customers including global brewers, craft brewers, distillers and food companies.

The diversity of UMG's customer base is highlighted in Figure 2.2(e)(i): Customer mix by type and Figure 2.2(e)(ii): Customer mix by geography below.

¹⁰ 'Other' sources of barley represent cooperatives and grain companies.

Figure 2.2(e)(i): Customer mix by type

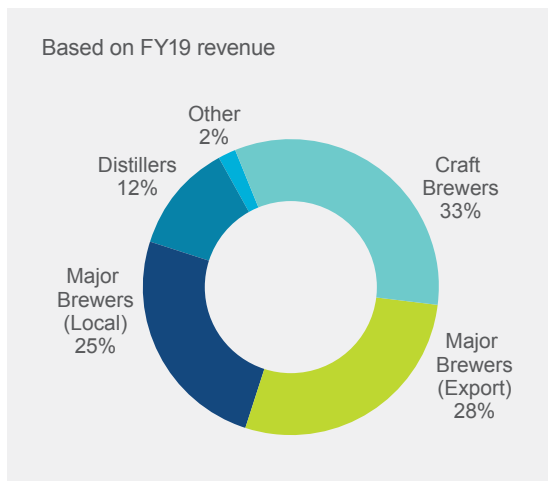
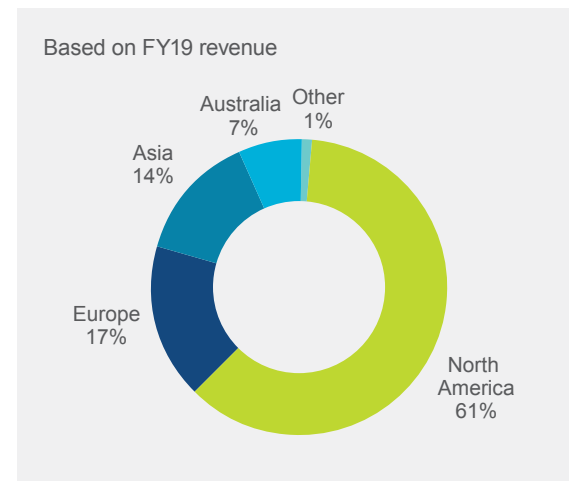


Figure 2.2(e)(ii): Customer mix by geography



These customers source different products and require different services from UMG depending on their scale and business model.

UMG sells into both domestic and export markets. Export markets (particularly Asia) are a particularly important source of demand for malt produced in Australia, representing approximately 80% of malt produced. UMG is well-positioned to benefit from potential increases in Asian demand given its Australian footprint and long-standing relationships with major brewers that operate in the region.

(f) Low risk earnings base with growth

UMG has delivered stable earnings growth due to end-market and geographic diversification. UMG has high visibility of earnings underpinned by long-term contracts, and, as at 31 October 2019, had sold approximately 90% of its total processing capacity for FY20, approximately 75% for FY21 and approximately 50% for FY22. These contracts ensure a base level of volume is reached and allows UMG to recover its largest variable cost through barley cost pass-through provisions. As utilisation approaches 100%, UMG's focus is on shifting its product and customer mix toward higher margin products.

(g) Strong cash generation

UMG has generated greater than 88% cash conversion (on average) over the last four years. Furthermore, UMG has low average stay-in-business capital expenditure requirements of around \$20-25 million per annum in recent years. UMG's cash flows from operations are expected to support capacity expansion in attractive markets and underpin an expected initial dividend payout ratio of approximately 60% of underlying NPAT. UMG's approach to dividends will be determined by the UMG Board at its discretion and may change over time, particularly as growth opportunities arise. The intentions of the UMG Board with respect to dividends as at the date of this Demerger Scheme Booklet are set out in Section 2.8(b).

(h) Prudent capital structure and financial policies

After the Demerger, UMG is expected to have a strong, investment grade capital structure. UMG has a policy of maintaining a ratio of net debt to EBITDA of 2.0 – 2.5 times to preserve balance sheet strength and flexibility, however, as a result of the seasonality of the UMG Business and the related working capital requirements (which

are higher at 31 March and lower at 30 September), this ratio is likely to be exceeded at times during the course of a financial year. A strong and conservative balance sheet will provide funding capacity to support the UMG Business' strategic and operational objectives and support dividends for UMG Shareholders.

Stay-in-business capital will be deployed strategically as network and processing assets are continually adapted to customers' needs. Additionally, a disciplined approach to capital investment with strict return hurdles will remain in place and capital management alternatives will be evaluated if excess capital is available.

See Section 2.8 for an overview of UMG's capital structure after the Demerger.

(i) Experienced UMG Board and senior management team

The UMG Board combines extensive commercial, capital markets, board and governance experience, together with broad global and executive experience in grain processing, grain trading, food processing and supply chain management. A summary of the UMG Directors' relevant experience is set out in Section 2.10(b).

UMG has an experienced senior management team, a well-developed corporate infrastructure and a disciplined capital allocation framework. Members of the senior management team supporting the Chief Executive Officer and Managing Director, Mark Palmquist, have extensive experience in grain procurement, malting operations, warehouse and distribution, and intimate knowledge of UMG's customer base, as outlined in Section 2.10(c).

2.3 Malt industry information

(a) Overview of the malting process

The malting process involves the conversion of barley or other cereal crops into malt through a germination phase. The germination phase activates enzymes in the crops which convert the grain's starch reserves and proteins into sugars and amino acids.

Figure 2.3(a): Overview of the malting process



Alcohol is derived from malt through a fermentation process, where these sugars and amino acids are heated up and fermented with yeast which creates alcohol. Through the addition of hops, beer can be created in the fermentation phase, or the alcohol can be put through a distillation process to create whisky. This process of creating alcohol is undertaken by UMG's customers after they have been provided with the appropriate malt product for their needs.

(b) Demand for malt

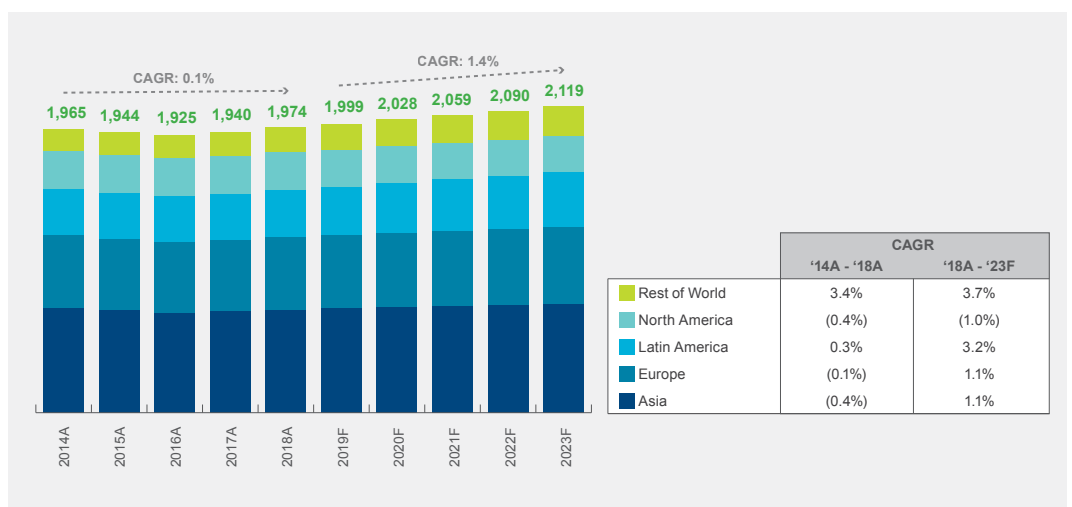
The production of beer accounts for over 90% of total malt demand. The remainder of global malt volumes are primarily used in the production of whisky, with a small amount used in various food ingredients.

Consequently, total demand for malt is primarily driven by three factors: (i) trends in mainstream beer consumption, (ii) quantity of malt used in beer production and (iii) trends in distilling.

(i) *Trends in mainstream beer consumption*

Global beer consumption was approximately 2.0 billion hectolitres in 2018, with Europe, China and Latin America accounting for approximately 65.1% of global beer consumption¹¹. From 2014 to 2018, global beer consumption has been flat, but is expected to grow modestly between 2018 and 2023 at a CAGR of approximately 1.4%¹². Higher growth is expected from emerging markets over the five years to 2023 (refer to Figure 2.3(b)(i)).

Figure 2.3(b)(i): Global beer consumption (MHL)¹³



(ii) *Quantity of malt used in beer production*

The amount of malt used in beer production varies considerably by brewery, region and style of beer produced. Malt inclusion has declined in mainstream beer due to a range of factors including improved production yields and efficiency, and increased substitution of malt with lower cost, unmalted grains or other inputs (e.g. sugar, corn or rice).

¹¹ Euromonitor, *Global Beer Consumption Volume*, May 2019.

¹² Euromonitor, *Global Beer Consumption Volume*, May 2019.

¹³ Euromonitor, *Global Beer Consumption Volume*, May 2019.

Despite flat to low growth in the consumption of mainstream beer, there has been strong growth in the craft and super premium beer segments as mature markets undergo a shift in consumer tastes and preferences, with consumers looking for more distinct, premium or speciality beers. Revenue from this segment of the beer market in the US has grown at a CAGR of 11.8%¹⁴ between 2013 and 2018, and craft beer now has a 24.1% share of US retail beer value¹⁵.

The craft beer market is important to the malt industry due to generally higher malt inclusion rates, the malt requirement being for higher quality malt (e.g. a preference for barley from a particular region or for malt to be roasted) and a demand for specialty malts (e.g. wheat malt and organic malt).

UMG's strong market position has enabled it to capture this growth in the world's largest craft beer market – the US¹⁶. In addition, major brewers have introduced premium brands to participate in this growth.

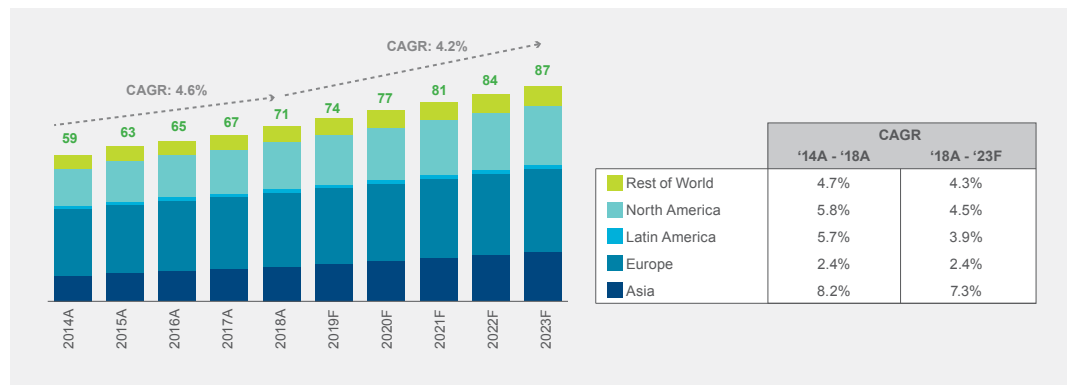
¹⁴ IBISWorld, *Craft Beer Production in the US*, December 2018.

¹⁵ Brewers Association, <https://www.brewersassociation.org/press-releases/brewers-association-releases-annual-growth-report/>, 2019.

¹⁶ Research and Markets, *Global Craft Beer Market 2019 – 2022*, December 2018.

(iii) *Trends in distilling*

Global single malt Scotch whisky consumption



The majority of malt for distilling is utilised in Scotland, a market which has experienced steady growth over the last few years driven by demand for aged whisky, in particular single malt whisky. Consumption of single malt Scotch whisky grew at a CAGR of approximately 5% between 2014 and 2018, and growth is expected to continue at a CAGR of approximately 4% between 2018 and 2023. Blended Scotch whisky consumption was flat between 2014 and 2018, however is expected to increase at a CAGR of approximately 2% between 2018 and 2023^{17,18}. The number of distilleries in Scotland has increased by 25% over the past 15 years to a total of 128 distilleries. Further, large distillers are expanding production capacity which is expected to result in increased demand for distilling malt.

(c) **Supply of malt**

Approximately 23.0Mt¹⁹ of malt is produced globally each year. The major malt producing regions are Europe (in particular, Germany and France), China, North America and Latin America, which are located in close proximity to barley growing regions.

The supply of malt is determined by the availability of barley suitable for the production of malt and malt production capacity. Production capacity of the global malting industry is estimated to be approximately 26.5Mtpa, of which 12.6Mtpa is located in Europe, 6.2Mtpa is located in Asia, 3.2Mtpa in North America, 2.8Mtpa in Latin America and 1.7Mtpa in the rest of the world.

Approximately 76% of total capacity is owned by commercial maltsters, with the balance integrated into end-user operations, primarily brewers. The four largest commercial

¹⁷ Euromonitor, *Global Single Malt Scotch Whisky Consumption Volume*, May 2019.

¹⁸ Euromonitor, *Global Blended Scotch Whisky Consumption Volume*, May 2019.

¹⁹ D. Huvet Consulting, *World's Largest Commercial Malting Companies*, May 2019. Reflects Top 30 maltsters due to data availability.

maltsters (UMG, Boortmalt, Malteries Soufflet and Malteurop²⁰) account for 34.5%²¹ of global malt production capacity.

(d) Competitive landscape

The competitive landscape varies significantly by region:

- (i) **North America** – Commercial maltsters contribute approximately 62% to North American malting capacity and include major global producers (UMG, Malteurop and Boortmalt²²) and Rahr Malting Company. Brewers have a greater presence in malt production in North America with three of the largest global brewers (AB InBev, Heineken and Molson Coors) controlling around 38% of total capacity. UMG and Rahr account for a significant portion of the warehouse and distribution market which services the craft beer segment.
- (ii) **Australia** – The Australian malting market comprises three commercial maltsters (UMG, Boortmalt²³ and Malteurop) who represent approximately 94% of total malting capacity. In-house malting by major brewers is not as prevalent in the Australian market as in North America or Europe.
- (iii) **Europe** – Commercial maltsters in Europe comprise around 75% of the region's capacity, however the majority (approximately 59%) of volume is controlled by four regional maltsters (Holland, Viking, Russky Solod and Ireks) and three international maltsters (Boortmalt, Malteries Soufflet and Malteurop). Outside the large maltsters, the market is highly fragmented with a large number of family-owned businesses. Other than Heineken, brewers are not strongly represented and generally purchase malt from commercial maltsters.

2.4 Overview of UMG's segments

An overview of each of UMG's operating segments is set out in Sections 2.4(a) and 2.4(b) below.

(a) Processing

UMG's malt processing segment (Processing) generates earnings from the production and sale of malt to major brewers, craft brewers, distillers and food companies. Processing has 13 malt plants with approximately 1.25mtpa of capacity across Canada, the US, Australia and the UK. Recent initiatives have focussed on investing in state-of-the-art malt facilities to realise cost efficiencies and enhance product quality.

- (i) **Canada** – UMG, through Canada Malting Company, is the largest commercial maltster in Canada, with malt production capacity of approximately 400ktpa across Canada Malting's three malt plants in Calgary, Montreal and Thunder Bay. All three malt plants have the ability to transport malt via bulk vessels, containers, trains and trucks. Canada Malting Company also owns its barley storage infrastructure, with a network of nine country elevators located in Canada's key barley growing regions.
- (ii) **US** – UMG, through Great Western Malting, is the oldest commercial malting company in the western region of the US and has malt production capacity of approximately 350ktpa across two malt plants in Vancouver, Washington and

²⁰ In December 2018, Boortmalt's parent Axereal entered into an agreement to acquire Cargill Malt.

²¹ D. Huvel Consulting, *World's Largest Commercial Malting Companies*, May 2019. Reflects Top 30 maltsters due to data availability.

²² In December 2018, Boortmalt's parent Axereal entered into an agreement to acquire Cargill Malt.

²³ In December 2018, Boortmalt's parent Axereal entered into an agreement to acquire Cargill Malt.

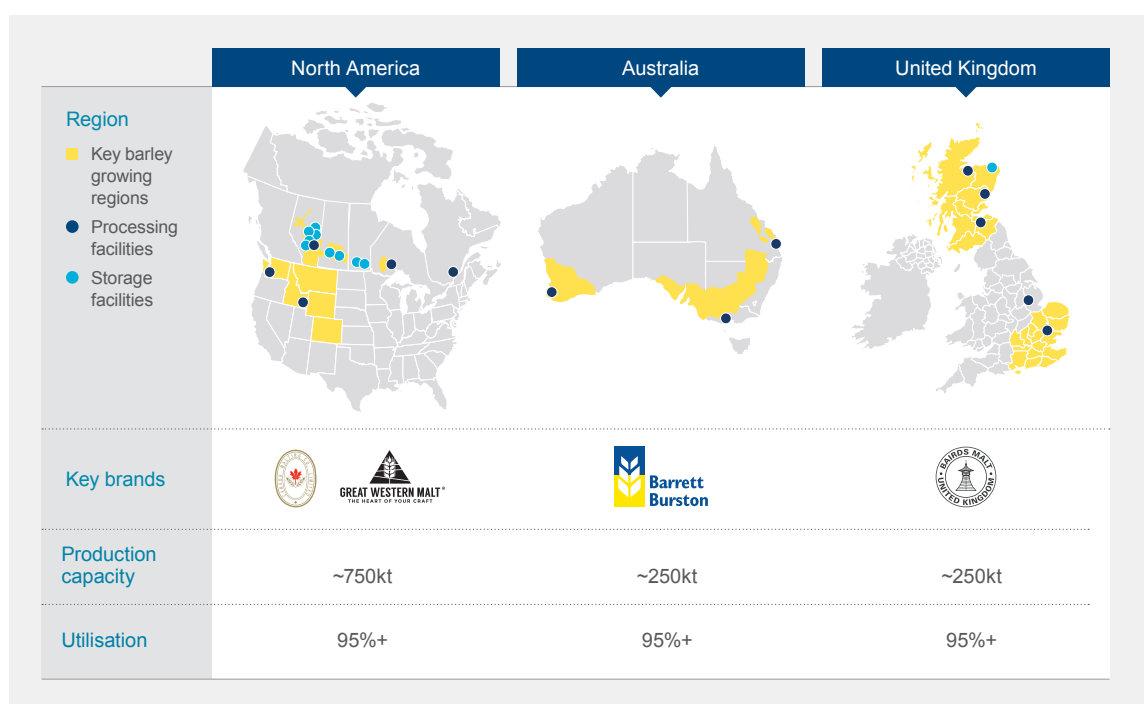
Pocatello, Idaho. In FY17, Great Western Malting completed the expansion of its malt plant in Pocatello, adding an additional 120kt of malting capacity. The expansion of Pocatello was supported by the continued growth of craft brewing and a favourable North American malt demand / supply balance.

- (iii) **Australia** – UMG, through Barret Burston Malting, is a major maltster in Australia, with malt production capacity of approximately 250ktpa across three plants in Geelong, Brisbane and Perth. In the fourth quarter of 2018, Barret Burston decommissioned and sold its Burnley malt plant, located in Victoria. Barret Burston is a major supplier to the domestic brewing industry, and also exports a material proportion of volumes to major brewers in Asia.
- (iv) **UK** – UMG, through Bairds Malt, is one of the largest malt producers in the UK with malt production capacity of approximately 250ktpa across five plants – three of which are located in Scotland and two in England. Bairds Malt is an important supplier to the Scottish distilling industry and is currently undertaking an expansion project to address growing demand for aged single malt whisky. The expansion will add 79ktpa of malting capacity by upgrading its Arbroath facility and building a new malting plant at its Inverness site. Bairds' Inverness plant is capable of producing peated malts, while a dedicated roasting facility at Witham in England produces a range of roasted and crystal malts.

UMG has strong end-to-end supply chains in each of its geographies, from barley origination to bulk domestic and export supply. With malting assets strategically located across major barley regions, UMG is able to access high quality malting barley across the globe. UMG's global network also enables it to offer a broader offering to global brewers, providing a significant competitive advantage.

UMG has an established barley origination process in each of its operating countries and has strong, long-standing relationships with barley growers. Each of UMG's operating countries has a dedicated procurement team that specialises in sourcing malting barley for use in the malt manufacturing process. This is supported by dedicated company-owned or contracted barley storage facilities in key barley growing areas.

Figure 2.4(a): Processing facilities



(b) Warehouse / distribution

UMG's malt distribution segment (**Warehouse / distribution**) generates revenue from the distribution and sale of bagged malt, hops, yeast, adjuncts and related products to craft brewers. UMG operates a network of 21 warehouses across Canada, the US, the UK, Australia and New Zealand (**NZ**). Its distribution network is complemented by approximately 20 international craft distribution partnerships throughout North America, South America, Europe, Asia and Australia.

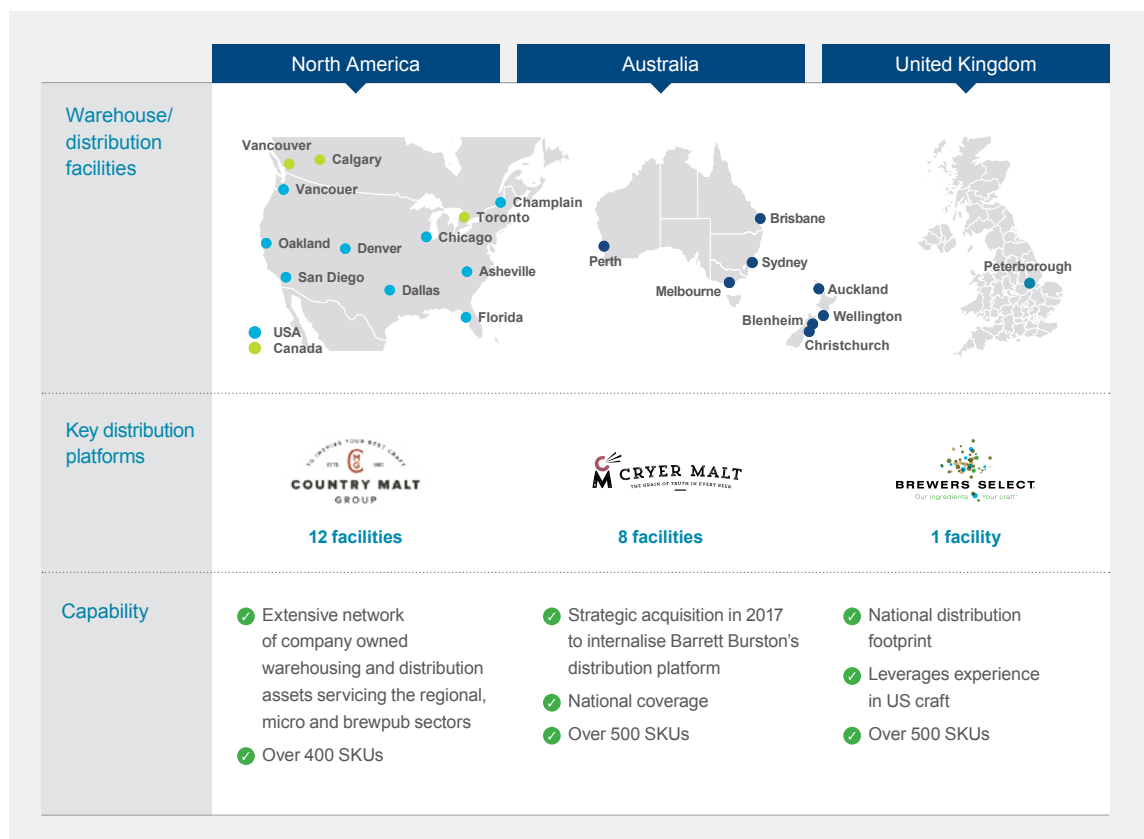
UMG provides craft brewers with a full service offering with multiple brands and product varieties, including third party products. UMG's competitive advantage is its ability to deliver products to customers in a timely fashion (e.g. typically within 48 hours in the US). UMG's high quality service offering and brewing advice creates loyalty amongst craft customers. Whilst there has been consolidation in the craft brewing industry, a number of craft brewers remain customers of UMG despite having been acquired by major brewing companies.

Country Malt Group (CMG) – UMG acquired CMG in 2007. CMG has 12 warehouses, nine located in the US and three located in Canada, with its supply market region being North America.

Cryer Malt – UMG acquired Cryer Malt in 2017, one of the largest distributors of craft brewing ingredients in Australia and New Zealand, with eight distribution facilities. The acquisition has enhanced UMG's access to the growing craft brewing sector in this region.

Brewers Select – In 2013, UMG launched Brewers Select to supply a range of quality ingredients for craft and microbrewers in the UK. Prior to the launch, UMG supplied bagged malt to the brewing industry from its five malting sites across the UK. Brewers Select offers malt, hops, yeast and other products on a single pallet.

Figure 2.4(b): Warehouse / distribution facilities



2.5 Business strategy

After the Demerger, UMG will continue to provide the highest quality products to customers by leveraging its multi-sourcing capability within UMG's value-added supply chain. UMG's strategy is to maintain its position in Canada, the US, Australia and the UK as a leading commercial maltster. UMG intends to build shareholder value by focussing on high value markets where growth is expected to continue, driven by demand for premium beer, craft beer and Scotch whisky.

The core pillars of UMG's business strategy are to:

(a) Maintain and develop relationships with global brewers

UMG intends to maintain and develop relationships with major brewers who require UMG's product quality and service-driven offering by:

- (i) leveraging its distribution capability to supply brewers domestically, as well as into export markets; and
- (ii) fostering its long-established relationships with growers globally and drawing on UMG's processing excellence to produce high quality malt for customers.

UMG is well-positioned to capture the future growth in beer consumption from emerging markets by being the supplier of choice for brewers.

(b) Continue to be the maltster of choice for craft brewers

UMG's strategy after the Demerger is to:

- (i) leverage its customer centric offering and scale in existing markets to win new customers; and
- (ii) drive innovation / new product development and expand the range of malts distributed on behalf of third parties to provide customers with greater product variety.

Product innovation is critical, and UMG has established a Malt Innovation Centre (**MIC**) in Vancouver, Washington to facilitate customer-driven demand for new product development. The MIC has a dedicated pilot brewery which enables UMG to collaboratively test new malt products for both craft beer and branded food customers. The MIC also enables customers that do not have the time or capability to test malt themselves to innovate and develop new craft offerings.

UMG is expanding its capability to develop more specialised products in its Canada facility. Upon completion of this project, UMG will be able to offer an expanded range of speciality products to craft customers, which are required to produce differentiated styles of craft beer.

(c) Expand craft distribution business in new geographies

The size of the beer market in each of Latin America and Asia is significant in terms of total beer production. Whilst craft penetration is currently low in these markets, the outlook for growth is compelling. A core part of UMG's strategy is to expand its craft distribution business into these regions by:

- (i) leveraging UMG's craft distribution experience from Canada, the US, Australia, New Zealand and the UK;
- (ii) pursuing strategic bolt-on acquisition and start-up opportunities similar to Cryer Malt and Brewers Select; and

(iii) developing new international distribution partnerships.

(d) Drive penetration in the Scottish distilling market

UMG has a long and proud history of supplying high quality malt as the primary ingredient in some of the world's finest and best-known whiskies. The Scotch whisky industry is expected to grow as consumers continue to demand higher value, single malt whiskies with higher malt content. UMG is focussed on capturing this growth which is expected to be supported by increasing demand from emerging markets.

In October 2018, GrainCorp announced a £51 million investment in UMG's Scottish malting facilities to add an additional 79kt of capacity across Arbroath and Inverness, reflecting strong sector growth and customer demand. The new capacity will enable UMG to build on its strong relationships to remain a supplier of choice across the Scottish distilling industry. Both the Inverness and Arbroath facilities are strategically positioned close to key customers and are in close proximity to Scottish barley supply.

(e) Proactively assess expansion and acquisition opportunities

UMG will evaluate greenfield / brownfield expansion opportunities alongside inorganic acquisition opportunities that fit within its strategic priorities and deliver an internal rate of return in excess of UMG's hurdle rate.

UMG anticipates that there will be opportunities to expand capacity at existing sites in the future. For example, Pocatello was built to accommodate future expansion, making it more cost effective compared to a greenfield build / or acquisition.

Acquisitions or partnerships in existing markets that fit into the current distribution model will also be assessed. Such opportunities include:

- (i) owning distribution networks in regions that are currently serviced by third-party distributors; and
- (ii) investments in adjacent businesses.

(f) Drive operational excellence and continuous improvement

After the Demerger, UMG will continue to optimise its asset footprint and drive manufacturing and supply chain efficiencies. Over the last few years, investment in new plants and brownfield expansions have delivered marked efficiency improvements while maintaining or increasing product quality.

Further, ongoing digitalisation of UMG's platform will drive additional efficiencies across the business, as well as enhance the overall customer experience.

Major investments in malt processing facilities are outlined below in Figure 2.5(f)(i) and Figure 2.5(f)(ii).

Figure 2.5(f)(i): 120kt expansion of Pocatello Malting Plant

Description	<ul style="list-style-type: none"> Capacity expansion to support growing demand from North American craft customers Increased Pocatello's total capacity to 220ktpa
Timing	<ul style="list-style-type: none"> Completed in September 2017
Rationale	<ul style="list-style-type: none"> UMG malting plants operating at high capacity utilisation in USA Continued demand for malt from North American craft beer sector Cost effective compared to greenfield build / acquisition

	<ul style="list-style-type: none"> • Reliable barley production region
Key highlights	<ul style="list-style-type: none"> • Project delivered on time • Achieved IRR above hurdle rate • Expansion backed by offtake from existing customers • Reduced production cost per tonne

Figure 2.5(f)(ii): 79kt expansion of Scottish malting facilities

Description	<ul style="list-style-type: none"> • Upgrade and expansion of Arbroath (22ktpa) • New malting plant at Inverness (57ktpa) • Will increase Bairds Malt's total capacity to >300ktpa
Timing	<ul style="list-style-type: none"> • Expected to complete by end of calendar year 2021
Rationale	<ul style="list-style-type: none"> • Strong demand for malt from Scottish distillers underpinned by global demand for aged whisky • Scottish malting facilities are strategically positioned in close proximity to key customers and high-quality barley
Key highlights	<ul style="list-style-type: none"> • New capacity underpinned by LTAs with key distilling customers • Reduced production cost per tonne

The Demerger will provide UMG with the operational and financial flexibility to pursue growth opportunities while maintaining an appropriate capital structure. The UMG Board intends to continue to pursue the strategic opportunities outlined above following the implementation of the Demerger. Continued development of UMG's strategy after the Demerger is a matter to be considered by the UMG Board, in conjunction with its senior management, and may require change or amendment as circumstances dictate.

2.6 Customers

UMG has a highly diversified customer base, servicing over 600 customers from its Processing business and over 7,000 customers from its Warehouse / distribution business. These customers range from small craft customers to the largest international brewers / distillers, many of which are under long-term contracts extending years into the future.

2.7 Information technology

GrainCorp has in place an information technology environment, network and communications landscape which is internally managed and supported in certain key areas by third-party services providers.

Following the Demerger, GrainCorp will provide certain information technology services to UMG under the GrainCorp to UMG Transitional Services Agreement for various service periods up to a maximum of 12 months from the Demerger Implementation Date (see Section 5.10(d)(i) for additional information about the terms of the GrainCorp to UMG Transitional Services Agreement). Until the conclusion of this period, GrainCorp will be responsible for the provision of UMG's information technology environment, network and communication landscape, and management of the performance of the associated systems, networks and functions. On expiration of the term of the GrainCorp to UMG Transitional Services Agreement, GrainCorp will have delivered to UMG its own standalone information technology environment and network and communications landscape, for which UMG will assume responsibility.

2.8 UMG's capital structure on implementation of the Demerger

(a) Capital structure

UMG's pro forma balance sheet as at 30 September 2019 included net debt of \$433 million. The actual balance upon implementation of the Demerger will be subject to variances in actual cash flows in UMG between 30 September 2019 and the Demerger Implementation Date, including capital expenditure and seasonal fluctuations in working capital. UMG has a policy of maintaining a strong, investment grade capital structure and maintaining a ratio of net debt to EBITDA of 2.0 – 2.5 times to preserve balance sheet strength and flexibility, however, as a result of the seasonality of the UMG Business and related working capital requirements (which are higher at 31 March and lower at 30 September), this ratio is likely to be exceeded at times during the course of a financial year.

(b) Dividend policy

After the Demerger, UMG's dividend policy will be determined by the UMG Board at its discretion and may change over time.

The UMG Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements (including to fund growth projects) and targeted credit metrics. As a result, UMG expects to initially distribute approximately 60% of underlying NPAT to UMG Shareholders.

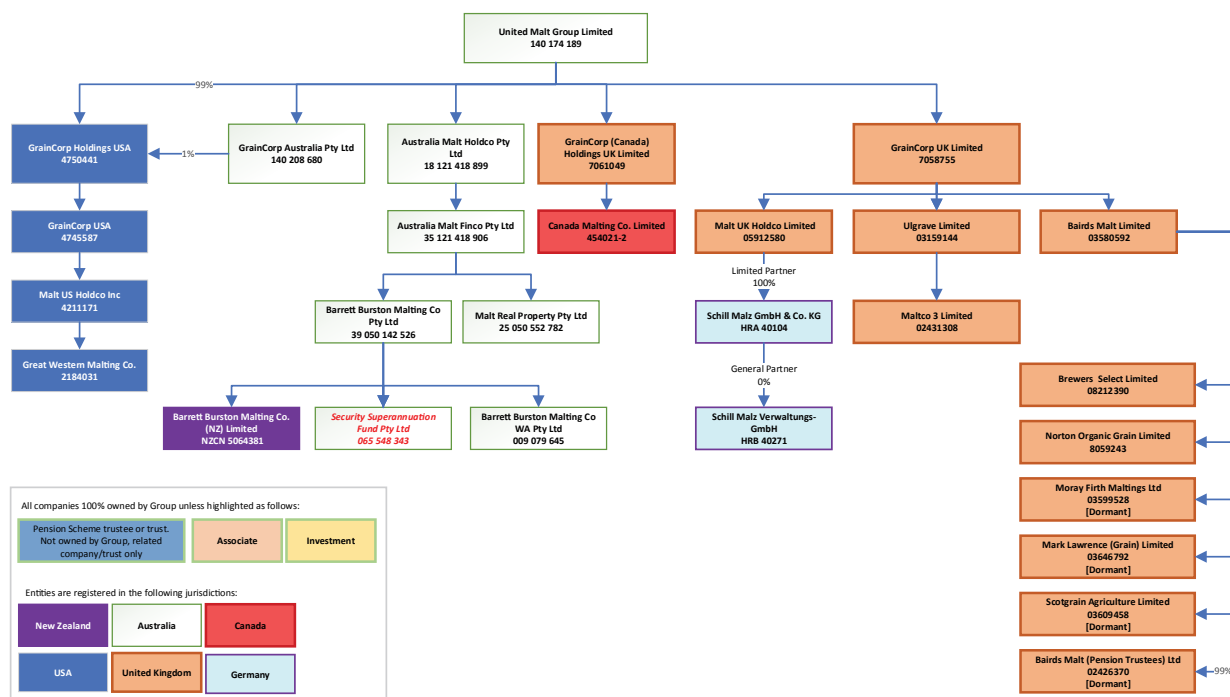
Whether dividends are franked will depend on UMG's franking account balance, which will depend on the amount of Australian income tax paid by UMG after the Demerger. Immediately after implementation of the Demerger, UMG's franking account balance will be nil. UMG intends to frank its dividends to the extent practicable, although this is expected to be less than 100% as UMG operates in a number of geographical regions, resulting in a substantial proportion of UMG's earnings being derived outside Australia and which, therefore, may not be subject to Australian income tax.

The UMG Constitution allows the UMG Board to implement a dividend reinvestment plan (**DRP**) on the terms they think fit, under which the whole or any part of a dividend due to UMG Shareholders who participate in the DRP may be applied in subscribing for UMG Shares.

If the UMG Board decides to implement a DRP, UMG will provide further information to UMG Shareholders before the relevant dividend record date, including details of the elections that may be made in relation to participation in the DRP by UMG Shareholders.

2.9 UMG Group structure

The UMG Group's corporate structure immediately after implementation of the Demerger is shown in the diagram below.



2.10 UMG Board and senior management

(a) UMG Board

If the Demerger is implemented, the UMG Board is expected to comprise five non-executive UMG Directors and Mark Palmquist, the Managing Director and Chief Executive Officer of UMG. Information about these non-executive UMG Directors and Mr Palmquist is set out below.

As at the date of this Demerger Scheme Booklet, Mr Bradley and Ms Gibson are non-executive GrainCorp Directors and are also UMG Directors. If the Demerger becomes Effective, Mr Bradley and Ms Gibson will step down from the GrainCorp Board on the Effective Date (which is currently expected to be Monday, 23 March 2020) and will remain on the UMG Board.

As at the date of this Demerger Scheme Booklet, Ms McAloon is also a GrainCorp Director and, as she was appointed to the GrainCorp Board on 11 December 2019 to fill a casual vacancy, will stand for re-election at the Annual General Meeting (which will be held on Wednesday, 19 February 2020) in accordance with GrainCorp's Constitution and the ASX Listing Rules. If Ms McAloon:

- is re-elected as a GrainCorp Director by GrainCorp Shareholders at the Annual General Meeting and the Demerger becomes Effective, she will step down from the GrainCorp Board on the Effective Date; or
- is not re-elected as a GrainCorp Director by GrainCorp Shareholders at the Annual General Meeting, she will step down from the UMG Board and will not be a UMG Director on implementation of the Demerger.

In accordance with the three-year rotation cycle for non-executive directors under ASX Listing Rule 14.4 and article 11.3(a) of the Constitution, Mr Simon Tregoning is scheduled to retire as a GrainCorp Director at the Annual General Meeting and will stand for re-election in accordance with GrainCorp's Constitution and the ASX Listing Rules. If Mr Tregoning:

- (i) is re-elected as a GrainCorp Director by GrainCorp Shareholders at the Annual General Meeting and the Demerger becomes Effective, he will step down from the GrainCorp Board on the Effective Date; or
- (ii) is not re-elected as a GrainCorp Director by GrainCorp Shareholders at the Annual General Meeting, he will step down from the UMG Board and will not be a UMG Director on implementation of the Demerger.

As at the date of this Demerger Scheme Booklet, Mr Terry Williamson is not a UMG Director. If the Demerger becomes Effective, he will be appointed to the UMG Board on the Effective Date.

As at the date of this Demerger Scheme Booklet, Mr Palmquist is the Chief Executive Officer of GrainCorp and is also a UMG Director. If the Demerger is approved by the Court at the Second Court Hearing and the Demerger becomes Effective, Mr Palmquist will resign as Chief Executive Officer of GrainCorp and commence employment as the Managing Director and Chief Executive Officer of UMG on the Effective Date (which is before trading in UMG Shares commences on the ASX).

Name	Profile
Graham Bradley AM <i>Non-executive Chairman</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Graham Bradley will be the Chairman of the UMG Board. • Mr Bradley joined the GrainCorp Board on 1 March 2017 and assumed the role of Chairman of the GrainCorp Board in May 2017. • Mr Bradley is also currently the Non-Executive Chairman of HSBC Bank Australia (since 2004), Energy Australia Holdings (since 2012) and Virgin Australia International Holdings (since 2012). Mr Bradley is also a Director of Hongkong and Shanghai Banking Corporation (since 2012), the Chairman of Infrastructure NSW (since 2013), a member of the Advisory Council of the Australian School of Business at UNSW, and was made a member of the Order of Australia in 2009. • Mr Bradley has previously held the position of Managing Director of Perpetual and senior roles at Blake Dawson and McKinsey & Company. Mr Bradley was previously a Director of GI Dynamics until 2017, Chairman of Po Valley Energy until 2016, and Chairman of Stockland Corporation until 2016. Mr Bradley was the President of the Business Council of Australia and the Deputy President of the Takeovers Panel, among other notable roles.

Name	Profile
Mark Palmquist <i>Managing Director & Chief Executive Officer</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Mark Palmquist will be the Managing Director & Chief Executive Officer of UMG. • Mr Palmquist is currently the Chief Executive Officer of GrainCorp, a position he has held since October 2014. Mr Palmquist was also the Managing Director of GrainCorp from October 2014 until April 2019, when he resigned from the GrainCorp Board in connection with GrainCorp's announcement of its intention to pursue the Demerger. • Prior to this, he was Executive Vice President and Chief Operating Officer, Ag Business, for CHS Inc., a leading global agribusiness, diversified in energy, grains and food. He has held a variety of leadership roles for a broad range of CHS agricultural inputs and marketing areas, retail businesses and grain-based food and food ingredients operation. • Mr Palmquist was previously a Director of Rahr Malting, a leading US maltster, and a Non-executive Director of Allied Mills Australia Pty Ltd until his resignation in March 2017.
Barbara Gibson <i>Non-executive UMG Director and Chair, Safety, Health and Environment Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Ms Barbara Gibson will be a Non-executive UMG Director and Chair, Safety, Health and Environment Committee. • Ms Gibson has been a member of the GrainCorp Board since March 2011. She is Chair of the Safety Health Environment and Governance Committee and a member of the Business Risk Committee. • Ms Gibson is currently a fellow of the Australian Academy of Technology and Engineering. In 2003, Ms Gibson was awarded a Centenary of Federation Medal for services to Australian Society in Medical Technology. She is a member of the Institute of Company Directors. • Ms Gibson is an experienced executive having spent 20 years with Orica. She was also previously a Non-executive Director of Nuplex Industries until her resignation in September 2016 and Chair of Warakirri Asset Management Pty Ltd until her resignation in December 2018.
Terry Williamson <i>Non-executive UMG Director and Chair, Audit and Risk Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Terry Williamson will be a Non-executive UMG Director and Chair, Audit and Risk Committee. • Mr Williamson has an extensive background in financial reporting and risk management with roles as senior audit partner of Price Waterhouse, CFO Bankers Trust Australia, Member of the Global Controls Group Bankers Trust New York Group, Chair of Audit and Risk Committee Stockland Property Group, Avant Insurance and Member of the Audit Committee of the Reserve Bank Australia and financial advisor to a number of not-for-profit organisations. • Mr Williamson is a Fellow of The Australian Institute of Company Directors, Fellow Chartered Accountants in Australia and New Zealand, Fellow CPA Australia, Fellow Governance Institute of Australia and Member Australian Computer Society. • He is currently a Director of Stockland Capital Partners and Stockland Direct Retail Trust No. 1, Member of the Building Estates Committee of the University of Sydney, and Finance Advisor to the Society of the Divine Word.

Name	Profile
Jane McAloon <i>Non-executive UMG Director and Chair, Nominations and Remuneration Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Ms Jane McAloon will be a Non-executive UMG Director and Chair, Nominations and Remuneration Committee (subject to re-election as a GrainCorp Director at the Annual General Meeting, as described above). • Ms McAloon has over 25 years' experience in the natural resources, energy, infrastructure and utility industries in corporate and public sector leadership positions, including senior executive roles with BHP Billiton and AGL. • Ms McAloon is a Non-executive Director of Viva Energy, Energy Australia and Home Consortium. She is a Board member of Allens and represents the Future Fund on the Port of Melbourne. She is a Director of Monash University Foundation and Bravery Trust. • Previous directorships include Healthscope, Civil Aviation Safety Authority, Cogstate and Australian War Memorial. She was also previously Chair of the Defence Reserves Support Council and a Member of the Referendum Council on Constitutional Recognition for Aboriginal and Torres Strait Islander Peoples. • Ms McAloon holds a Bachelor of Laws and Bachelor of Economics (Hons) from Monash University and a Graduate Diploma in Corporate Governance. She is a Fellow of the Australian Institute of Company Directors.
Simon Tregoning <i>Non-executive UMG Director</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Simon Tregoning will be a Non-executive UMG Director (subject to re-election as a GrainCorp Director at the Annual General Meeting, as described above). • Mr. Tregoning joined the GrainCorp Board in December 2008. Mr Tregoning was a member of the Safety Health Environment and Governance Committee and a member of the People Remuneration and Nominations Committee. • Mr Tregoning was previously a Director of Capilano Honey until his resignation in November 2018. Mr Tregoning was previously Vice-President of Kimberly Clark Corporation, has extensive overseas senior executive experience and is an experienced company director.

(b) UMG Board Skills, Experience and Attributes

The UMG Board aims to be a board of directors which has, at all times, the appropriate mix of skills, experience, expertise and diversity relevant to the UMG Business and the UMG Board's duties and responsibilities.

The UMG Board skills matrix below sets out the mix of skills, experience and expertise that the UMG Board will have on implementation of the Demerger and will aim to achieve and maintain through its membership. Its composition reflects the areas particularly relevant to UMG's strategy, as well as other areas of general importance to the UMG Business.

Strategy and Business Acumen	Financial, Risk and Compliance
Experience in developing and implementing successful business strategies, applying business acumen and judgement to grow shareholder value.	Senior leadership experience in management and financial accounting, corporate finance, tax, trading and operational risk, compliance and internal controls.

Board and Governance Experience Experienced non-executive director with a strong commitment to good governance and knowledge of compliance and regulatory requirements for listed entities.	Executive Leadership Experience in senior leadership roles, including listed board positions and C-suite roles.
International Operations Experience as a director or manager of multi-geographic organisation, including operating in local political, cultural, regulatory and business environments.	Agribusiness / Supply Chain Understanding of the economic drivers and challenges of commodity businesses and related supply chain management.
Industrial Processing and Distribution Understanding the economic drivers, challenges and operations of heavy manufacturing industries and product distribution businesses.	Talent and Diversity Management Experience in organisational talent management and corporate culture, employee engagement, leadership development, executive remuneration and diversity and inclusion policies.
Safety, Health and Environment Experience in overseeing effective management of safety, health and environment compliance and risk management systems.	

The UMG Board also strives for gender diversity and relevant geographic experience within these skill sets and aims to ensure that the UMG Board, as a whole, is able to demonstrate a blend of capabilities.

The UMG Board believes that its current and planned membership will include UMG Directors who collectively provide the required skills and experience to equip the UMG Board to fulfil its role diligently and to provide effective governance and oversight of the UMG Business strategy and operations.

(c) UMG's senior management

On implementation of the Demerger, UMG will have a highly experienced senior management team with extensive domestic and international experience. If the Demerger is implemented, the senior management team of UMG will comprise six employees. Information about the members of the senior management team is set out below.

Name	Profile
Mark Palmquist <i>Managing Director and Chief Executive Officer</i>	<ul style="list-style-type: none"> See Section 2.10(a) above
Amy Spanik <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> Ms Amy Spanik is the Chief Financial Officer of UMG, a position she has held since May 2015, and is a licenced CPA. Prior to this, Ms Spanik was Global Financial Controller and Assistant Controller at GrainCorp Malt. Ms Spanik was a Senior Manager at EY where she had more than nine years' experience.

Name	Profile
Darren Smith <i>President, Processing</i>	<ul style="list-style-type: none"> Mr Darren Smith is the President of UMG, a position he has held since January 2019. He was previously the Chief Operations Officer of GrainCorp Malt, a position he held since 2014. Prior to this, Mr Smith was a Managing Partner at RMI Analytics. Mr Smith was previously Director of Sales at Canada Malting Company and has held various production roles in that business.
Bryan Bechard <i>President, Warehouse / distribution</i>	<ul style="list-style-type: none"> Mr Bryan Bechard joined GrainCorp in 2009 and was appointed President of the Country Malt Group and Brewcraft USA in October 2014. As one of the co-founders of the North Country Malt Supply, Mr. Bechard has been involved in ingredient distribution to the North American craft brewing industry for nearly 25 years. Mr. Bechard is a graduate of Le Moyne College's Madden School of Business.
Mary Welle <i>Vice President, Human Resources</i>	<ul style="list-style-type: none"> Ms Mary Welle joined GrainCorp Malt as Vice President, Human Resources in February 2014. Prior to this, Ms Welle held several senior human resources positions including Vice President roles with HWR, DuraTherm and Siemens-US Filter. Ms Welle also served as HR Manager for Great Western Malting from September 2010 to May 2012.
Donald McBain <i>Vice President, Strategy and Business Development</i>	<ul style="list-style-type: none"> Donald McBain joined the Corporate Strategy Team at GrainCorp in March 2016 as General Manager, Customer Experience. Prior to that, Mr McBain held several senior marketing and strategy positions in the UK, Europe and Australasia. These included Lion (Brewing and Beverage company), General Motors (UK & Europe) and the Suncorp Financial Services Group.

2.11 Employees

As at 30 September 2019, UMG had approximately 970 employees across the UMG Business. A breakdown by business segment is set out below.

Business segment	Headcount (FTEs)
Processing	695
Warehouse / distribution	275
Total	970

(a) Superannuation / Pension

UMG employees have active defined contribution retirement savings plans available in US, Canada, UK and Australia. A defined contribution plan is a type of retirement plan in which the employer, employee or both make contributions on a regular basis. These plans, managed through external third-party administrators, are based on a combination of employee and employer contributions depending on the standard regulatory practice in each country. Legacy defined benefit (pension) plans are also present in US, Canada, UK and Australia. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. All existing defined

benefits plans are closed to new entrants and are funded as needed based on a schedule of contributions as determined by annual actuarial valuations.

(b) Occupational Health and Safety (OH&S)

OH&S is a key priority for UMG and, during FY19, the following three areas were identified as OH&S priorities: critical risk management, injury reduction and process safety management. Four-year strategies have been established for each priority and UMG has a dedicated OH&S team which implements and monitors safe work practices across the business. UMG maintains positive relationships with workplace health and safety regulators through proactive engagement and appropriate responsiveness and management of any issues or concerns raised.

2.12 UMG's corporate governance

(a) Corporate governance overview

If the Demerger is implemented, the UMG Board will be responsible for the overall corporate governance of UMG. This Section 2.12 describes how the UMG Board will oversee the management of the UMG Business after implementation of the Demerger. Copies of UMG's key policies and practices and the charters for the UMG Board and each of its committees will be available at UMG's website (www.unitedmalt.com) at the time of the ASX Listing.

The UMG Board will monitor the financial position and performance of UMG and oversee the UMG Business after the Demerger. The UMG Board is committed to ensuring that the UMG Business is managed to enhance UMG Shareholder interests and that UMG and UMG Directors, officers and employees operate in an environment of strong corporate governance.

Accordingly, the UMG Board has implemented corporate governance policies and practices that the UMG Directors believe are appropriate for the UMG Business and which are designed to promote the responsible management of UMG.

The key corporate governance charters and policies adopted by UMG, which will take effect from the time of the ASX Listing, are summarised below. In addition, many governance elements are contained in the UMG Constitution, which is summarised in Section 7.7.

(b) ASX Corporate Governance Council's Corporate Governance Principles and Recommendations

UMG will apply to the ASX for the ASX Listing. The ASX Corporate Governance Council has developed a fourth edition of the Corporate Governance Principles and Recommendations (**ASX Recommendations**) for entities listed on the ASX. In the ASX Corporate Governance Council's opinion, the ASX Recommendations are likely to achieve good governance outcomes and meet the reasonable expectations of most investors in most situations.

The ASX Recommendations are not prescriptions, but guidelines. Under the ASX Listing Rules, UMG will be required to provide a corporate governance statement in its annual report disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where UMG does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and provide reasons for not following it. UMG believes that its approach to corporate governance and the key charters and policies adopted by UMG (which are summarised below) are substantially

consistent with the ASX Recommendations, having regard to the nature and scale of UMG's business.

(c) Composition of UMG Board

On implementation of the Demerger, as described in Section 2.10(a) above, the UMG Board will be comprised of five directors, including an independent, non-executive Chair, an executive UMG Director and three non-executive UMG Directors (all of whom are independent based on the criteria described below). The UMG Board may choose to adjust the number of UMG Board members, depending on future changes in UMG's circumstances and the needs of the UMG Board.

Detailed biographies of the UMG Directors on ASX Listing are provided in Section 2.10(a) above.

The UMG Board has adopted a definition of independence that is based on the ASX Recommendations. The UMG Board considers a UMG Director to be independent where he or she is free of any interest, position, association or relationship that might influence, or might reasonably be perceived to influence, in a material respect, his or her capacity to bring independent judgement to bear on issues before the UMG Board and to act in the best interests of UMG and UMG Shareholders generally. The UMG Board will regularly assess the independence of each UMG Director having regard to information disclosed to the UMG Board.

Mr Palmquist is not considered by the UMG Board to be an independent director on implementation of the Demerger given his role as Managing Director and Chief Executive Officer of UMG.

The UMG Board considers that, at the time of the ASX Listing:

- (i) each of Ms Barbara Gibson, Ms Jane McAloon, Mr Simon Tregoning and Mr Terry Williamson will be independent non-executive UMG Directors; and
- (ii) Mr Graham Bradley will be an independent non-executive Chairman.

(d) UMG Board Charter

The UMG Board has adopted a written charter to provide a framework for the effective operation of the UMG Board, which includes the following components:

- the role, responsibilities and processes of the UMG Board;
- the relationship and interaction between the UMG Board and management; and
- the authority delegated by the UMG Board to management and UMG Board committees.

As described in the UMG Board Charter, the UMG Board's role is to:

- build long term value for UMG Shareholders, with due regard to the legitimate interests of UMG's other stakeholders (including customers, employees, creditors, suppliers and the communities affected by UMG's operations), by overseeing and appraising UMG's strategies, policies and performance;
- determine UMG's desired values and culture;
- define UMG's overall strategic direction, approve UMG's strategic and operational plans, and monitor UMG's performance against those plans;
- oversee management's performance, including management's implementation of UMG's strategic objectives and maintenance of UMG's values;

- appoint, replace, review and evaluate the performance and employment of, UMG's Chief Executive Officer, and approve the appointment and replacement of other senior executives;
- approve the remuneration of UMG's Chief Executive Officer and executives who report directly to UMG's Chief Executive Officer;
- ensure that UMG's remuneration policies are aligned with UMG's purpose, values, strategic objectives and risk appetite;
- determine UMG's risk appetite, approve UMG's risk management framework and strategies (including credit, market, liquidity, equity and operational risk) and develop and monitor the effectiveness of internal controls and systems in order to manage and mitigate these risks;
- oversee UMG's compliance with continuous disclosure requirements and policies for communication with shareholders, financial markets and regulators;
- review the performance of UMG in relation to safety, health and environmental consequences of the activities of UMG, including impacts on employees, third parties, the environment and the communities in which the Company operates; and
- set, review and monitor the effectiveness of, UMG's governance framework and policies.

The management function and day-to-day operations of UMG are the responsibility of the Chief Executive Officer, supported by his direct reports. The Chief Executive Officer is accountable to the UMG Board for the performance and management of UMG and its operations.

(e) UMG Board committees

The UMG Board may from time to time establish and delegate powers to committees, in accordance with the UMG Constitution, to assist in the discharge of its responsibilities. The UMG Board has established an Audit and Risk Committee, a Nominations and Remuneration Committee and a Safety, Health and Environment Committee. Other committees may be established by the UMG Board as and when required.

Under the charters of each committee, each committee must consist of a minimum of three members and only non-executive UMG Directors, a majority of whom must be independent, and an independent non-executive UMG Director (who is not Chair of the UMG Board) as chair.

(i) *Audit and Risk Committee*

The role of the Audit and Risk Committee is to assist the UMG Board in fulfilling its responsibilities in respect of financial reporting, risk management, compliance and associated internal controls.

The Audit and Risk Committee will review the financial reporting process, the system of internal control and management of financial risks, and the process and coverage of internal and external audit, together with business risks including strategic operational and regulatory risk and compliance with applicable laws, regulations and UMG policies. The Audit and Risk and Committee's responsibilities include:

- reviewing and recommending for adoption UMG's financial statements and reports;
- ensuring that the UMG Board is regularly informed of matters that may significantly impact the financial condition of UMG;
- ensuring implementation and management of a risk management system, including overseeing and reviewing the performance and effectiveness of the internal and external audit functions;
- establishing a framework and ensuring the identification, assessment and management of UMG's significant risks;
- overseeing the development and implementation of UMG's business continuity, disaster recovery and emergency management plans; and
- reviewing and managing compliance with UMG's anti-bribery and corruption framework.

On implementation of the Demerger, the Audit and Risk Committee will comprise:

- Terry Williamson (Chair);
- Barbara Gibson; and
- Jane McAloon.

(ii) *Nominations and Remuneration Committee*

The role of the Nominations and Remuneration Committee is to assist the UMG Board in fulfilling its responsibilities with respect to human resource policies, remuneration matters and nomination and succession planning processes within UMG.

The Nominations and Remuneration Committee is responsible for ensuring that UMG's human resource, remuneration and incentive policies and practices are aligned to its values and business objectives and performance and demonstrate a clear relationship between overall UMG performance, executive performance and remuneration.

The objectives of the Nominations and Remuneration Committee are to assist the UMG Board to:

- determine remuneration and people management policies, which are aligned with UMG's purpose, values, strategic objectives and risk appetite and which enable UMG to attract, motivate and retain capable and talented directors, executives and employees;
- ensure UMG fairly and responsibly remunerates directors, executives and employees, having regard to the performance of UMG and best market practices; and
- delivers on its overall people strategy, having regard to UMG's succession planning, talent management, diversity, performance management and employee relations policies.

The Nominations and Remuneration Committee's responsibilities include:

- overseeing UMG's recruitment, retention and termination policies and procedures for executives and senior management;
- reviewing strategies and policies for people management, including remuneration programs, performance management processes and career and skills development initiatives;
- regularly reviewing the ongoing appropriateness, and operation of UMG's employee equity and incentive plans, having regard to legislative, regulatory and market developments;
- overseeing management's preparation of the annual remuneration report for inclusion in the UMG annual report and recommending the report to the UMG Board for approval;
- determining the competencies required of directors for the UMG Board;
- developing and implementing a process for the evaluation of the performance and effectiveness of the UMG Board as a whole, UMG Board committees and individual Non-executive UMG Directors, and assisting the UMG Board to make a recommendation to shareholders in relation to the re-election of Non-executive UMG Directors;
- assisting the UMG Board to develop a UMG Board skills matrix with the competencies required for the UMG Board to effectively discharge their responsibilities, and periodically reviewing the composition, functions, responsibilities and size of the UMG Board;
- reviewing and recommending to the UMG Board the remuneration of the Chief Executive Officer on an annual basis, including the payment of any bonuses or incentives;
- reviewing and recommending to the UMG Board remuneration programs and performance targets for the Chief Executive Officer;
- reviewing and approving the recommendation of the Chief Executive Officer regarding remuneration programs and performance targets for members of senior management, including the monitoring of performance against those targets;
- reviewing and approving the recommendation of the Chief Executive Officer regarding the remuneration of senior management, including the payment of any bonuses or incentives; and
- ensuring that there are plans in place to manage the succession of the Chief Executive Officer and senior management.

On implementation of the Demerger, the Nominations and Remuneration Committee will comprise:

- Jane McAloon (Chair);
- Graham Bradley; and
- Simon Tregoning.

(iii) *Safety, Health and Environment Committee*

The role of the Safety, Health and Environment Committee is to assist the UMG Board in fulfilling its responsibilities for corporate governance and oversight of matters of safety, health and environment (**SHE**) in relation to the activities and operations of UMG and members of the UMG Group.

The Safety, Health and Environment Committee's primary responsibility is to assist the UMG Board to satisfy itself about the integrity, effectiveness and performance of UMG's SHE functions and systems for compliance with legal and regulatory SHE requirements and the accuracy of the UMG's external reporting on SHE matters. The Safety, Health and Environment Committee's responsibilities include:

- reviewing the performance of UMG in relation to SHE matters, decisions and actions, including the safety, health and environmental consequences of the activities of UMG and the impacts on employees, third parties, the environment, communities and reputation of UMG;
- reviewing UMG's compliance with its legal and regulatory obligations in relation to SHE policies and procedures in the jurisdictions in which UMG operates;
- reviewing and recommending to the UMG Board, and monitoring UMG's compliance with SHE performance objectives, targets and key performance indicators;
- reviewing, overseeing and reporting to the UMG Board in relation to any audit and assurance plan in respect of SHE matters, new SHE policies and any litigation matters with the potential to have a significant impact on UMG;
- evaluating the adequacy and effectiveness of the SHE risk management framework, including by reviewing reports from external and internal audits;
- reviewing investigations into significant occupational health and safety, environmental or product quality incidents and developing ways to prevent future occurrences; and
- reviewing and recommending to the UMG Board any disclosures in relation to SHE matters.

On implementation of the Demerger, the Safety, Health and Environment Committee will comprise:

- Barbara Gibson (Chair);
- Simon Tregoning; and
- Terry Williamson.

(f) **UMG's corporate governance policies**

The UMG Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which will be available at UMG's website (www.unitedmalt.com) at the time of the ASX Listing.

(i) *Disclosure Policy*

After completion of the ASX Listing, UMG will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. UMG recognises its obligation to keep the market fully informed of any

information that UMG becomes aware of concerning it which may have a material effect on the price or value of UMG securities, subject to certain exceptions.

UMG has adopted a Disclosure Policy to reflect its compliance with the continuous disclosure obligations imposed on it by the ASX Listing Rules and the Corporations Act and to reinforce UMG's commitment to providing accurate, balanced and clear announcements that allow investors to assess the impact of the information when making investment decisions.

The Disclosure Policy establishes internal procedures and processes aimed at ensuring that UMG complies with its continuous disclosure obligations. To oversee the fulfilment and effective operation of the Disclosure Policy, the UMG Board has established a disclosure committee to consider continuous disclosure issues as they arise, comprising of the Chairman of the UMG Board, CEO, CFO and company secretary.

(ii) *Securities Trading Policy*

UMG has adopted a Securities Trading Policy which sets out the prohibitions on insider trading in Australia and the procedure for the buying and selling of securities in UMG (including UMG Shares). This policy regulates dealings by UMG Directors and officers and employees of the UMG Group in Australia and all overseas UMG offices and other designated persons in securities in UMG in respect of which they or their associates acquire inside information through their position in, or dealings with, UMG. The requirements imposed by the Securities Trading Policy are in addition to any legal prohibitions on insider trading.

Consistent with the relevant laws relating to insider trading, under the Securities Trading Policy, the persons referred to above are not permitted to buy or sell UMG securities at any time where that person possesses inside information. Under the Securities Trading Policy, there are specific restrictions imposed during blackout periods, where those persons must not deal in any of UMG's financial products or securities, or in any securities related to them (except in exceptional circumstances).

Outside of the blackout periods, UMG Directors and senior management and other designated persons must receive prior approval for any proposed dealing in UMG securities in accordance with the Securities Trading Policy and provide confirmation that they are not in possession of any inside information at the relevant time.

(iii) *Diversity Policy*

UMG acknowledges the positive outcomes and better overall performance that can be achieved through a diverse workplace. UMG recognises and utilises the contribution of diverse skills and talent from its directors, officers and employees. The UMG Board has adopted the Diversity Policy, which reflects UMG's commitment to building a workplace that promotes respect, fairness, inclusion and equity, along with a high performance culture.

UMG is committed to inclusion at all levels of the organisation, regardless of gender, marital or family status, sexual orientation, gender identity, age, disabilities, ethnicity, religious beliefs, cultural background, socio-economic background, perspective and experience.

The UMG Board has designed and implemented programs to facilitate the organisation's gender diversity objectives, which the UMG Board will annually set, review and disclose in accordance with the Diversity Policy.

(iv) *Whistle-blower Policy*

UMG has adopted a Whistle-blower Policy to support the Code of Conduct (described in Section 2.12(f)(vi) below) and UMG's commitment to acting ethically, honestly, responsibly and with the highest standards of integrity throughout its business operations. The Whistle-blower Policy provides a mechanism for individuals to raise concerns about misconduct or an improper state of affairs in relation to the UMG Group, including unethical conduct, financial malpractice, impropriety or fraud, contravention of legal or regulatory provisions or a breach of the Code of Conduct.

The Whistle-blower Policy also establishes a protocol for the proper and transparent investigation of all disclosures while maintaining the anonymity of whistle-blowers. The Whistle-blower Policy applies to all UMG Group officers, employees and contractors, and is in compliance with the:

- (A) Corporations Act;
- (B) *Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2019* (Cth); and
- (C) *Taxation Administration Act 1953* (Cth).

(v) *Anti-Bribery and Corruption Policy*

UMG is committed to conducting its business activities in an ethical, lawful and socially responsible manner, and in accordance with the laws and regulations of the countries in which it operates including:

- (A) state and territory legislation (and relevant foreign legislation) applying to bribery of public officials and private individuals; and
- (A) *the Criminal Code Act 1995* (Cth).

UMG recognises that operating an ethical business organisation is important to its ongoing success.

Accordingly, UMG has adopted an Anti-Bribery and Corruption Policy to reinforce the strict prohibition on the offer, provision, solicitation or acceptance of bribes and other corrupt conduct. In addition, the Anti-Corruption and Bribery Policy sets out the protocols in place to ensure compliance with anti-corruption and bribery laws in all countries which may have jurisdiction over UMG's operations. The policy supports UMG's Code of Conduct, which is described in Section 2.12(f)(vi) below.

The Anti-Bribery and Corruption Policy applies to all UMG employees, officers, directors and, in certain circumstances, consultants, secondees, contractors, agents and intermediaries.

(vi) *Code of Conduct*

UMG is committed to acting with the highest standard of integrity, honesty and ethical standards throughout its business operations. Accordingly, UMG has adopted a Code of Conduct which sets out the standards of professional conduct that UMG expects of its business and people in achieving its underlying purpose and objectives.

The key components of the Code of Conduct include:

- (A) acting in accordance with UMG's values, policies and all laws and regulations that apply;
- (B) acting ethically, honestly and responsibly in dealings with customers, suppliers and other internal or external parties;
- (C) disclosing and managing conflicts of interest and the improper disclosure of confidential information;
- (D) protecting UMG's business assets; and
- (E) setting out what UMG expects of its leaders and staff including with respect to all forms of detrimental conduct.

The Code of Conduct applies to all employees, contractors, consultants, managers and the UMG Board, including temporary employees, contractors and directors of UMG.

2.13 UMG Directors' interests and remuneration

(a) Interests in GrainCorp Shares

Refer to Section 7.1 for information regarding the number of GrainCorp Shares held by or on behalf of the UMG Directors as at the date of this Demerger Scheme Booklet. UMG Directors who hold GrainCorp Shares as at the Demerger Scheme Record Date will be entitled to receive UMG Shares under the Demerger on the same terms as all other Eligible GrainCorp Shareholders.

(b) UMG Managing Director and Chief Executive Officer

Refer to Section 2.14(c) for a description of the UMG Managing Director and CEO's remuneration and Section 7.1 for a description of the treatment of the UMG Managing Director and CEO's GrainCorp Performance Rights in connection with the Demerger.

(c) Non-executive UMG Director remuneration

The total aggregate amount provided to all non-executive UMG Directors for their services as directors is set by the UMG Board, but must not exceed \$1,500,000 in any financial year (unless approved by UMG Shareholders). This amount is intended to provide UMG with flexibility to continue to attract and retain non-executive directors of appropriate skill, expertise and calibre. Initially, it is not proposed that the whole of the annual aggregate non-executive director fee amount will be used in the financial year in which the Demerger is implemented.

Under the UMG Constitution, the UMG Board may decide the remuneration to which each UMG Director is entitled for their services as a director. Non-executive UMG Directors will be remunerated with a base fee and additional committee fees for chairing or sitting on a UMG Board committee. It is envisaged that the role of Chairman of the UMG Board will involve a significant element of investor relations and shareholder management work that the UMG Board considers is out of the ordinary for a non-executive chairman role. In addition, the UMG Board considers that the role will require specific expertise and a materially greater time commitment to that of comparable roles. The UMG Board therefore considers it appropriate that these requirements and the time commitment required to fulfil the role are reflected in the proposed fee for the role of Chairman of the UMG Board (which is set out below).

The initial annual fee structure (inclusive of superannuation) will be as follows:

Role	Fees payable (in AUD)
Base fee - Chair	\$340,000
Base fee - Member	\$120,000
Audit and Risk Committee Chair	\$22,000
Nomination and Remuneration Committee Chair	\$22,000
Safety, Health and Environment Committee Chair	\$22,000
Committee Member	\$11,500

(d) Other information

(i) Further amounts that may be payable to directors

UMG Directors may be paid such additional remuneration as the UMG Board decides is appropriate where a UMG Director performs extra services or makes any special exertions for the benefit of UMG.

UMG Directors are entitled to be paid for all travelling and other expenses incurred in attending to UMG affairs, including attending and returning from general meetings of UMG or meetings of the UMG Board or UMG Board committees. A fee of \$6,000 per long haul trip (over 10 hours flying time) and \$2,800 per short haul trip (between 6 and 10-hours' flight time) will also form part of the remuneration arrangements for each UMG Director.

(ii) Directors' indemnity and insurance

UMG has entered into deeds of indemnity, insurance and access with each of the UMG Directors. Each deed of indemnity, insurance and access will give the UMG Director rights of access to UMG Board papers and requires UMG to indemnify the UMG Director, on a full indemnity basis and to the maximum extent permitted by law, against all losses and liabilities (including all reasonable legal costs) incurred by the UMG Director in their capacity as an officer of UMG (or of another UMG Group company) on the terms set out in the deed.

Under the deeds of indemnity, insurance and access, UMG must maintain a directors and officers insurance policy insuring a UMG Director against liability incurred as a director or officer of UMG (or another UMG Group company) from the appointment date until the later of seven years after a UMG Director ceases to hold office or the date any relevant proceedings commenced (and notified by UMG Director to UMG) during the seven-year period have been finally resolved.

2.14 UMG executive remuneration

(a) Introduction

UMG's remuneration framework aims to engage and retain key talent whilst motivating them to deliver its business strategy and key performance targets that create value for

UMG Shareholders. Importantly, UMG seeks to ensure that remuneration is structured in a manner that also encourages the right behaviours.

(b) Senior management arrangements

Remuneration for senior managers will comprise a fixed and an 'at risk'/variable component. A significant proportion of the remuneration packages for senior managers will be 'at risk' to ensure alignment with UMG's strategic objectives and UMG Shareholder interests.

Details for each component of the senior manager remuneration framework are outlined below.

(i) Total Fixed Remuneration (TFR)

TFR comprises base salary and is determined with regard to role size and complexity, responsibility, competence and levels that are competitive with remuneration levels for employees in comparable roles in the relevant market.

(ii) Short term incentive (STI)

Eligible senior managers will be able to participate in UMG's STI plan to reward contribution to annual business goals and also promote retention and alignment with UMG Shareholders.

The terms of the STI plan will be determined by the UMG Board following the Demerger and it is currently expected that the key terms will include the following:

Term	Details
Eligibility	The UMG Board will determine the employees who are eligible to participate in the STI plan from time to time.
Opportunity	The UMG Board will set individual STI opportunity as a percentage of TFR. The value of any STI award that a participant may become eligible to receive will depend on the assessment of performance against a scorecard of performance measures over a performance period, having regard to the weightings and targets assigned to each performance measure.
Form of award	Part cash and part equity that will be deferred into rights to acquire UMG Shares. Deferred rights will not carry any voting or dividend rights.
Performance period	Performance will be tested over the financial year.
Performance measures	STI performance measures, and the weightings and performance standards assigned to each performance measure, will be set annually by the UMG Board in relation to the Managing Director and CEO, and by the Managing Director and CEO (and approved by the UMG Nominations and Remuneration Committee) in relation to other senior managers. It is anticipated that performance will be assessed against a balanced scorecard comprising financial and non-financial measures and details of these measures will be disclosed in UMG's FY20 remuneration report.
Deferred rights and deferral period	50% of the awarded STI will be deferred. Deferred awards for the UMG Managing Director and CEO will cease to be restricted after 12 months. For other senior managers, 50% of deferred awards will cease to be restricted after 12 months, and 50% after 24 months.

Term	Details
Malus	The UMG Board in its discretion may determine that some, or all, of an employee's deferred STI should be forfeited for gross misconduct, material misstatement or fraud.
Cessation of employment	Subject to UMG Board discretion, STI awards may: A. remain on foot to be paid or granted in full at their normal payment or grant date for cessation of employment due to redundancy, disability, death or retirement; or B. be forfeited for resignation or termination for cause.
Change of control	All deferred STI will vest on a change of control, unless the UMG Board determines otherwise.

(iii) *Long term incentive (LTI)*

UMG intends to establish an LTI plan as a key long-term component of remuneration for senior management and other selected employees. This plan is intended to reward superior long-term performance and encourage retention and alignment with UMG Shareholders.

The terms of the LTI plan will be determined by the UMG Board following the Demerger and it is currently expected that the key terms will include the following:

Term	Details
Eligibility	The UMG Board will determine the employees who are eligible to participate in the LTI plan from time to time.
Instrument	Performance rights, each being a right to acquire a UMG Share for nil consideration, upon specified performance criteria being satisfied over the relevant performance period. Performance rights will not carry voting or dividend rights.
Opportunity	The UMG Board will determine individual LTI opportunities as a percentage of TFR. Unless otherwise determined by the UMG Board (as described below), the number of performance rights granted to each participant under the first award will be determined by dividing the dollar value of their LTI opportunity by the VWAP of UMG Shares over the 20 consecutive trading day period within the 30 day period commencing immediately after the fourth day after the date on which UMG Shares commence trading on the ASX (so as to minimise the effect of any volatility in the share price in period immediately following the Demerger). The UMG Board has delegated authority to the Chairman to determine a different 20 consecutive trading day period within 30 days after the Effective Date in the event of unexpected or unforeseen circumstances.
Performance period	The first award under the LTI plan will be made within three months after the date on which UMG Shares commence trading on ASX. The performance period for the first award will commence on the date on which UMG Shares commence trading on ASX and end on 30 September 2022. The performance period for future grants under the LTI plan will be determined by the UMG Board at its discretion.

Term	Details										
Performance conditions	<p>Vesting of performance rights under the LTI plan will be subject to the satisfaction of specified performance conditions.</p> <p>The performance conditions applicable to the first award under the LTI plan will be a combination of:</p> <p>A. Absolute TSR (50%) defined as the compound annual growth rate of UMG's TSR over the performance period; and</p> <p>B. Return on Capital Employed (ROCE) (50%) defined as earnings before interest and taxes (EBIT) divided by capital employed. Earnings includes interest on commodity inventory funding²⁴. An average of the three financial year ROCE outcomes will be calculated to determine the ROCE over the three-year vesting period.</p> <p>The vesting schedule for both the TSR and the ROCE performance conditions is as follows:</p> <table> <tr> <th>Performance attained</th><th>Percentage of rights to vest</th></tr> <tr> <td>Below the minimum of the target range</td><td>Nil</td></tr> <tr> <td>At minimum of the target range</td><td>50%</td></tr> <tr> <td>Within target range</td><td>Straight line between 50% & 100%</td></tr> <tr> <td>At or above the maximum of the target range</td><td>100%</td></tr> </table> <p>The performance standards applicable to each relevant condition will be determined by the UMG Board following the Demerger and disclosed in UMG's FY20 remuneration report.</p> <p>The UMG Board intends to select performance conditions that are linked to both external market performance and UMG's internal performance and aim to align senior managers' interests with those of UMG Shareholders. Appropriately challenging performance standards will be set that reflect the characteristics of the industry.</p> <p>Performance against performance standards will be disclosed in future remuneration reports.</p>	Performance attained	Percentage of rights to vest	Below the minimum of the target range	Nil	At minimum of the target range	50%	Within target range	Straight line between 50% & 100%	At or above the maximum of the target range	100%
Performance attained	Percentage of rights to vest										
Below the minimum of the target range	Nil										
At minimum of the target range	50%										
Within target range	Straight line between 50% & 100%										
At or above the maximum of the target range	100%										
Vesting	<p>Upon the satisfaction of the performance conditions, the relevant number of performance rights will vest and each participant will receive a UMG Share in respect of each vested performance right.</p> <p>In order to increase participants' equity holdings in UMG, the UMG Board may impose restrictions on dealing in those shares for a specified period following the vesting of the performance rights.</p>										
Malus	<p>The UMG Board in its discretion may determine that some, or all, of an employee's unvested LTI should be forfeited for gross misconduct, material misstatement or fraud.</p>										

²⁴ ROCE capital employed is identical to ROIC invested capital, being the sum of UMG's average total borrowings net of cash assets and commodity inventory funding and average total shareholders' equity. ROCE is a non IFRS measure.

Term	Details
Cessation of employment	The treatment of awards on cessation of employment will be at the UMG's Board discretion. LTI awards may: <ul style="list-style-type: none"> A. be retained in full or on a pro-rata basis and be tested and vest subject to the satisfaction of applicable performance conditions at the end of the performance period, for cessation of employment due to redundancy, disability, death or retirement; or B. be forfeited for resignation or termination for cause.
Change of control	In the event of a change of control, the UMG Board may determine in its discretion that some or all of participants' performance rights will vest or cease to be subject to restrictions.

(iv) *One Off Awards*

There will be no long-term incentives that may vest in the three years following Demerger. To encourage retention of senior management and to ensure alignment with UMG Shareholders during the period following the Demerger, the UMG Board intends to grant a one-off award following the Demerger to selected UMG employees, including the Managing Director and CEO.

The terms and conditions for the one off award will be determined by the UMG Board following the Demerger and it is currently expected that the key terms will include the following:

Term	Details
Instrument	Performance rights, each being a right to acquire a UMG Share for nil consideration, upon specified performance criteria being satisfied over the relevant performance period. Performance rights will not carry voting or dividend rights.
Opportunity	The UMG Board will determine the value of individual one-off awards. The number of performance rights granted to each participant will be determined by dividing the dollar value of their LTI opportunity by the VWAP of UMG Shares over the 20 consecutive trading day period within the 30 day period commencing immediately after the fourth day after the date on which UMG Shares commence trading on the ASX (so as to minimise the effect of any volatility in the UMG Share price in the period immediately following the Demerger).
Performance period	The one-off award will be made within three months after the date on which UMG Shares commence trading on ASX. Performance will be assessed over a performance period commencing on the date on which UMG Shares commence trading on ASX and ending on 30 September 2021.
Performance conditions	Vesting of performance rights will be subject to the satisfaction of specified performance conditions. The performance conditions applicable to the one off awards will be a combination of: <ul style="list-style-type: none"> A. Absolute TSR (50%) defined as the compound annual growth rate of UMG's TSR over the performance period; and B. Return on Capital Employed (ROCE) (50%) defined as earnings before interest and taxes (EBIT) divided by capital

Term	Details										
	<p>employed. Earnings includes interest on commodity inventory funding²⁵. An average of the three financial year ROCE outcomes will be calculated to determine the ROCE over the three-year vesting period.</p> <p>The vesting schedule for both the TSR and the ROCE performance conditions is as follows:</p> <table> <tr> <th>Performance attained</th><th>Percentage of rights to vest</th></tr> <tr> <td>Below the minimum of the target range</td><td>Nil</td></tr> <tr> <td>At minimum of the target range</td><td>50%</td></tr> <tr> <td>Within target range</td><td>Straight line between 50% & 100</td></tr> <tr> <td>At or above the maximum of the target range</td><td>100%</td></tr> </table> <p>The performance standards applicable to each relevant condition will be determined by the UMG Board following the Demerger and disclosed in UMG's FY20 remuneration report.</p> <p>In determining applicable performance conditions, the UMG Board will ensure that participants will be no better off following the Demerger and intends to select performance conditions that remain appropriately challenging in light of the Demerger and aim to align senior managers' interests with those of UMG Shareholders.</p> <p>Performance against performance standards will be disclosed in future remuneration reports.</p>	Performance attained	Percentage of rights to vest	Below the minimum of the target range	Nil	At minimum of the target range	50%	Within target range	Straight line between 50% & 100	At or above the maximum of the target range	100%
Performance attained	Percentage of rights to vest										
Below the minimum of the target range	Nil										
At minimum of the target range	50%										
Within target range	Straight line between 50% & 100										
At or above the maximum of the target range	100%										
Vesting	<p>Upon the satisfaction of the performance conditions, the relevant number of performance rights will vest and each participant will receive a UMG Share in respect of each vested performance right.</p> <p>In order to increase participants' equity holdings in UMG, the UMG Board may impose restrictions on dealing in those shares for a specified period following the vesting of the performance rights.</p>										
Malus, cessation of employment and change of control	As per awards under the LTI plan as outlined in Section 2.14(b)(iii).										

²⁵ ROCE capital employed is identical to ROIC invested capital, being the sum of UMG's average total borrowings net of cash assets and commodity inventory funding and average total shareholders' equity. ROCE is a non IFRS measure.

(c) Material terms of employment of UMG KMP

(i) Table summarising material terms of employment

UMG considers that, on implementation of the Demerger, its “Key Management Personnel” (as that term is defined in the Corporations Act) will be:

- (A) Mark Palmquist – Managing Director and Chief Executive Officer;
 - (B) Amy Spanik – Chief Financial Officer;
 - (C) Darren Smith – President, Processing; and
 - (D) Bryan Bechard – President, Warehouse / distribution,
- (the **UMG KMP**).

The material terms of the employment of the UMG KMP, which will become Effective on the Effective Date, are summarised in the table below. These terms are described in more detail in Section 2.14(c)(ii).

Term		Detail of term
Term		Employment will continue until such time that it is terminated in accordance with the employment agreement and as outlined below.
Remuneration	TFR	Under the terms of their employment, the UMG: A. Managing Director and CEO is entitled to a TFR of US\$885,500; B. CFO is entitled to a TFR of US\$325,000; C. President Processing is entitled to a TFR of US\$410,000; and D. President, Warehouse / distribution is entitled to a TFR of US\$260,500.
	STI	For FY20, they will be entitled: A. for the Managing Director and CEO, a STI payment of up to 150% of TFR; B. for the CFO a STI payment up to 90% of TFR; C. for the President, Warehousing and Distribution, a STI payment of up to 60% of TFR; and D. for the President, Processing a STI payment of up to 105% of TFR, based on achievement of financial and non-financial performance measures set and assessed by the UMG Board.
	LTI	The UMG Managing Director and CEO and CFO will participate in the FY20 LTI grant with opportunities as follows: A. for the Managing Director and CEO, 100% of TFR on the terms outlined in Section 2.14(b)(iii); and B. for the CFO, President, Processing and President, Warehousing and Distribution 40% of TFR on the terms outlined in Section 2.14(b)(iii).

Term		Detail of term
	One-Off Award	The UMG Managing Director and CEO will participate in the one-off award with an opportunity of A\$1,265,000 on the terms outlined in Section 2.14(b)(iv). The UMG President, Processing will participate in the one-off award with an opportunity of US\$164,000 on terms outlined in Section 2.14(b)(iv).
Termination		Under the terms of their employment, the UMG: A. Managing Director and CEO is entitled to six months' notice, and B. CFO, President, Processing and President, Warehousing and Distribution are entitled to three months' notice.
Post-employment restraint		Managing Director and CEO: six months following cessation of employment. Other UMG KMP: six months following cessation of employment.

(ii) *Detailed summaries of material terms of employment of UMG KMG*

(A) Managing Director and Chief Executive Officer's employment contract

Mark Palmquist is currently the Chief Executive Officer of GrainCorp and, following the Demerger, will become the Managing Director and Chief Executive Officer of UMG. The material terms of Mr Palmquist's employment agreement, which will become effective on the Effective Date, are summarised below:

Fixed pay: US\$885,500 per annum, reviewed annually.

Short term incentive: For the year ending 30 September 2020, Mr Palmquist will be eligible for an annual bonus of between 0% and 150% of his fixed pay (with target performance resulting in a bonus of 100% of fixed pay). A portion of this annual bonus will be dependent upon the achievement by UMG of specified financial measures, which may change each year to ensure strategic alignment, but which are expected to include NPAT and EBIT. The remainder of the bonus is assessed against non-financial objectives set by the UMG Board. Mr Palmquist will receive one half of any bonus in the form of rights to UMG Shares under the STI plan described in Section 2.14(b)(ii) (DEP) (deferred bonus) which will vest after one year (see Section 2.14(b)(ii)). If Mr Palmquist resigns or otherwise ceases employment for reasons not acceptable to the UMG Board, any rights to UMG Shares that he holds at that time will be forfeited. For the year ending 30 September 2020, the amount of the bonus for which Mr Palmquist will be eligible will be prorated to reflect the portion of time that he served as Chief Executive Officer of GrainCorp and as Managing Director and Chief Executive Officer of UMG.

Long term incentive: Mr Palmquist will be offered rights (which will grant rights to receive UMG Shares) under UMG's proposed long term incentive plan (as described in Section 2.14(b)(iii)). The maximum value of the UMG Shares made available under annual grants of the long-term incentive plan

will be equivalent to approximately one times one year's fixed pay. Mr Palmquist will become entitled to the maximum number of shares if UMG meets the highest performance standard measures under the plan. It is expected that these performance standards will be structured such that the award of 50% of the performance rights will be subject to measures relating to UMG's absolute TSR, with the award of the other 50% subject to performance against long-term targets for UMG's ROCE. It is expected that the performance period will run from April 2020 to September 2022.

One-off share incentives: Following the Demerger, the UMG Board intends to grant one-off share entitlements in the form of allocations under the proposed UMG long-term incentive plan (as described in Section 2.14(b)(iv)).

As a result of ceasing employment with GrainCorp, Mr Palmquist will forfeit certain entitlements under the GrainCorp Deferred Equity Plan and Long-Term Incentive Plan, as described in Section 5.7. He will therefore not have the opportunity to realise all of the potential incentive offered under those plans.

The purpose of the one-off share incentives is primarily to encourage Mr Palmquist to remain with UMG after the Demerger and, secondly, to ensure that he is not disadvantaged as a result of his transfer of employment.

The precise details of the one-off share incentives will be finalised by the UMG Board following the Demerger, but will be broadly structured as an opportunity to receive up to approximately AU\$1.265 million in UMG Shares under the UMG long term incentive plan. The actual number of UMG Shares, if any, which may be allocated under this plan will depend upon UMG's absolute TSR and ROCE performance. The periods over which performance will be measured will be from the Demerger through until September 2021. Where employment ceases before shares are allocated, entitlements will lapse.

Termination of employment: Mr Palmquist's employment may be terminated by UMG on six months' notice. UMG may terminate Mr Palmquist's employment without notice in the event of serious misconduct. Mr Palmquist must provide six months' notice should he wish to terminate his employment. Other than statutory entitlements such as accrued leave, Mr Palmquist will not be entitled to any other payments or benefits on termination.

Any payments made to Mr Palmquist upon termination of his employment are subject to the provisions of the Corporations Act relating to the payment of termination benefits.

Mr Palmquist is subject to a post-employment restraint for a period of six months following cessation of employment.

(B) Senior executive arrangements

UMG has entered into employment agreements with the senior members of UMG's management team (including the other UMG KMP) set out in Section 2.10(c). The material terms of those employment agreements, which will become effective on the Effective Date, are summarised below:

Fixed pay: Salary packages will reflect the seniority and skills of the employee and be set at levels that are competitive with median remuneration levels for employees in comparable roles in the relevant market. The TFR of UMG KMP is set out in Section 2.14(c)(i).

Short term incentive: Subject to performance hurdles, senior executives will be eligible for an annual bonus of between 0% and 105% of fixed pay (with target performance resulting in a bonus of 40-70% of fixed pay). One half of any bonus in the form of rights to UMG Shares under the STI plan described in Section 2.14(b)(ii) (deferred bonus), 50% vesting after one year and the remaining 50% after two years. The performance criteria on which payments will be calculated will be a blend of the achievement by UMG of specified financial measures and other objectives set by the Managing Director and Chief Executive Officer of UMG.

Long term incentive: Senior executives will be offered shares under the proposed UMG long term incentive plan, on similar terms and conditions as those that will apply to the Managing Director and Chief Executive Officer (as described in Section 2.14(b)(iii)). The maximum entitlement will be 40% of fixed pay.

One-off share incentives: Following the Demerger, the UMG Board intends to grant one-off share entitlements in the form of allocations under the proposed UMG deferred equity and long-term incentive plan (as described in Section 2.14(b)(iv)).

As a result of ceasing employment with GrainCorp, eligible employees will forfeit certain entitlements under the GrainCorp Deferred Equity Plan and Long-Term Incentive Plan as described in Section 5.7. They will therefore not have the opportunity to realise all of the potential incentives offered under those plans.

The purpose of the one-off share incentives is primarily to encourage key employees to remain with UMG after the Demerger and, secondly, to ensure that they are not disadvantaged as a result of their transfer of employment.

The precise details of the one-off share incentives will be finalised by the UMG Board following the Demerger, but will be broadly structured as follows:

- Deferred rights granted to the value of those forfeited under the GrainCorp deferred equity plan; and
- an opportunity to receive UMG Shares under the UMG long term incentive plan. The actual number of UMG Shares, if any, which may be allocated under this plan will depend upon UMG's absolute TSR and ROCE performance. The periods over which performance will be measured will be from the Demerger through until September 2021. Where employment ceases before shares are allocated, entitlements will lapse.

Termination of employment: The employment of senior executives may be terminated by UMG on 3 months' notice. If a senior executive's employment is terminated by reason of redundancy, the maximum payment to which they will be entitled (including any pay in lieu of notice) will be the amount of 12 months of fixed pay. UMG may terminate the employment of

senior executives without notice in the event of serious misconduct. Senior executives must provide three months' notice should they wish to terminate their employment. Other than statutory entitlements such as accrued leave, senior executives will not be entitled to any other payments or benefits on termination.

Payments made to senior management team members upon termination of employment are subject to the provisions of the Corporations Act relating to the payment of termination benefits.

Senior executives are subject to a post-employment restraint for a period of six months following cessation of employment.

2.15 Corporate sustainability

UMG intends to adopt an integrated approach to corporate sustainability, consistent with the policy it applied as a subsidiary of GrainCorp. UMG is committed to continuously improving its business practices to minimise negative social, environmental and economic impacts. UMG's approach to corporate sustainability is designed to enhance employee engagement and retention, corporate reputation, manage risk and protect its social license to operate.

2.16 Environment, Health and Safety

UMG is committed to complying with the various health, safety and environmental laws to which its operations are subject, identifying and managing the environmental, health and safety risks facing the business to ensure safe, effective and efficient performance across its operations.

In mid-2017, GrainCorp launched the Group Safety, Health and Environment Strategy Towards 2020, a framework based on the five pillars of Safety, Environment & Sustainability, Leadership & Culture, Health & Wellbeing and Risk Management. The framework enables certain goals to be prioritised, which can then be broken into individual initiatives and implemented across one or more areas of the GrainCorp Pre-Demerger Group (including UMG).

UMG's safe-for-life focus uses targeted health and safety programs along with behavioural safety programs to involve employees to produce a safer and more engaging workplace. Since the start of the zero-harm/safe-for-life focus in 2012, UMG has reduced recordable injuries to employees and contractors by over 77%.

The UMG Board intends to continue the current framework following the Demerger.

Environmental and safety performance by UMG is, and after the Demerger will continue to be, overseen by programmes targeting continuous operational, environmental, health and safety improvement based on the principals of ISO 14001/2015 and OHSAS 18001 & ISO 45001/2015.

Examples of UMG's major environmental impacts that are monitored and reviewed within this continuous improvement framework are:

(a) Energy and carbon emissions

Malting is an energy intensive process that uses natural gas and electricity in the manufacturing of malt. All locations set energy reduction targets, continuously benchmark energy use and develop and implement new technology to meet UMG's reduction targets. UMG is also committed to reducing the carbon footprint of its products. Through a process of accounting for its carbon emissions, reduction of energy use, sourcing energy sources with lower carbon emission factors, carbon offsets and leadership review, UMG is achieving its energy and carbon reduction targets.

(b) Water use

Malting is a water-intensive process. As with energy, all locations set water reduction targets, continuously benchmark water use and develop and implement new technology such as membrane bioreactors coupled with reverse osmosis to meet UMG's reduction targets.

2.17 UMG Pro Forma Historical Financial Information**(a) Overview**

This Section 2.17 contains pro forma historical financial information in relation to UMG (the **UMG Pro Forma Historical Financial Information**), comprising the:

- UMG Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019 set out in Section 2.17(f);
- UMG Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019 set out in Section 2.17(g); and
- UMG Pro Forma Historical Balance Sheet as at 30 September 2019 set out in Section 2.17(h).

In this Demerger Scheme Booklet, references to the UMG Pro Forma Historical Financial Information are references to consolidated pro forma historical financial information in relation to the assets, liabilities and operations comprising UMG as it will exist immediately after implementation of the Demerger.

The UMG Pro Forma Historical Financial Information has been reviewed by the Investigating Accountant and the Investigating Accountant has prepared the Investigating Accountant's Report in respect of the UMG Pro Forma Historical Financial Information. The Investigating Accountant's Report is set out in Attachment B. GrainCorp Shareholders should read the Investigating Accountant's Report, including the comments made by the Investigating Accountant in relation to the scope and limitations of the Investigating Accountant's Report.

This Section 2.17 should be read in conjunction with the risks relating to the Demerger set out in Section 4.2 and the risks of an investment in UMG set out in Section 4.3.

(b) Basis of Preparation

The UMG Pro Forma Historical Financial Information has been prepared for illustrative purposes to assist GrainCorp Shareholders in understanding the financial performance, financial position and cash flows of UMG. By its nature, pro forma historical financial information is illustrative only. Consequently, the UMG Pro Forma Historical Financial Information does not purport to reflect the actual financial performance, financial position and cash flows that would have occurred if UMG had operated as a standalone, ASX-listed company for the periods to which the UMG Pro Forma Historical Financial Information relate.

The UMG Pro Forma Historical Financial Information has been extracted from the historical financial information directly relating to UMG in GrainCorp's accounting records and adjusted for the effects of the pro forma adjustments described below. These accounting records were used to generate GrainCorp's financial statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019. GrainCorp's financial statements for the years ended 30 September 2016, 30

September 2017, 30 September 2018 and 30 September 2019 have been audited by PwC in accordance with Australian Auditing Standards. PwC issued unqualified audit opinions on these financial statements. Copies of these audited financial statements can be found at GrainCorp's website (www.graincorp.com.au) or the ASX website (www.asx.com.au).

Unless otherwise stated in this Demerger Scheme Booklet, the UMG Pro Forma Historical Financial Information has been prepared in accordance with Australian Accounting Standards (**AAS**) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (**AASB**), which comply with the recognition and measurement principles of the International Financial Reporting Standards (**IFRS**) and interpretations adopted by the International Accounting Standards Board. The accounting policies used in the preparation of the UMG Pro Forma Historical Financial Information are consistent with those set out in GrainCorp's financial report for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, which was disclosed to the ASX in GrainCorp's Annual Report in respect of each of those financial years.

Management have elected the Australian dollar to be UMG's presentation currency in accordance with the AASB standards. The functional currency of UMG is US dollars. All transactions and balances will be translated into the presentation currency in accordance with standards adopted by the AASB. The results and cash flows of UMG entities are translated into Australian dollars using the average exchange rates for the relevant period. Assets and liabilities of UMG entities are translated into Australian dollars at the exchange rate based on the relevant balance sheet date.

The UMG Pro Forma Historical Financial Information is presented in an abbreviated form and does not contain all the disclosures required by AAS in an annual financial report prepared in accordance with the Corporations Act.

The UMG Pro Forma Historical Cash Flow Statements set out in Section 2.17(g) are presented as cash flows after net capital expenditure, finance costs and tax.

The UMG Pro Forma Historical Income Statements and UMG Pro Forma Historical Cash Flow Statements set out in Sections 2.17(f) and 2.17(g) (respectively) include pro forma adjustments to reflect:

- the new financing arrangements for UMG that will take effect on implementation of the Demerger, as described in Section 2.17(i);
- the anticipated corporate and operating costs of UMG operating as a standalone, ASX-listed company;
- the removal of the results of three German malt plants (**GrainCorp Malt Germany**) following the sale in FY17 along with the associated significant items, which primarily represent impairment of assets and gain / loss on disposal of assets; and
- tax related to pro forma adjustments at the respective effective tax rates of the entity that the pro forma adjustment relates to.

The UMG Pro Forma Historical Balance Sheet set out in Section 2.17(h) has been prepared on the basis that the Demerger was implemented on 30 September 2019 and that the relevant assets and liabilities of UMG were transferred to UMG from the GrainCorp Post-Demerger Group at their historical book value. Pro forma adjustments have been made to the UMG Pro Forma Historical Balance Sheet to reflect the new

financing arrangements, capital structure, transaction costs and accounting for the Demerger.

The UMG Pro Forma Historical Balance Sheet set out in Section 2.17(h) does not represent the actual financial position of UMG at the time of the Demerger, but represents an indication of the UMG pro forma historical balance sheet as at 30 September 2019 in the circumstances set out in this Section 2.17(b).

(c) Accounting Pronouncement Not Yet Adopted

The AAS are subject to amendments from time to time, and any such changes may impact the balance sheet or the income statement of UMG after the Demerger. Following the Demerger, UMG will be impacted by AASB 16 *Leases* (AASB 16), which is effective from 1 October 2019. AASB 16 introduces a single lessee accounting model and will require UMG, as lessees, to recognise, for all leases with a term of more than 12 months and that are not of assets of low value:

- a right-of-use asset representing its right to use the underlying leased asset; and
- a lease liability representing its obligations to make lease payments.

Information on the undiscounted amount of UMG's operating lease commitments at 30 September 2019 under AASB 117 *Leases* (AASB 117), the current leasing standard, is set out in Section 2.17(l). Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing income statement classification of what is currently predominantly presented as occupancy-related expenses in EBITDA will be split between depreciation (of right-of-use asset) and interest expense (associated with the lease liability).

UMG have adopted AASB 16 using the modified retrospective approach as of 1 October 2019. The cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 October 2019, with no restatement of comparative information.

UMG have assessed the impact of AASB 16 as at 30 September 2020. The estimated impact of the adoption of AASB 16 on the balance sheet as at 1 October 2019 is an increase in assets (right-of-use asset) of \$80 million and an increase in liabilities (lease liability) of \$79 million. The net difference between these balances will be recognised as an adjustment to retained earnings at 1 October 2019.

EBITDA will increase as the operating expense is replaced by interest expense and depreciation in the income statement under AASB 16 which is recorded below EBITDA. The estimated impact on the income statement for the year ending 30 September 2020 is an increase in depreciation and amortisation expense of \$12 million, an increase in interest expense of \$2 million and a decrease in occupancy expenses of approximately \$13 million.

There is no impact on cashflows resulting from the adoption of AASB 16.

These estimates may be materially different to the actual impact for the year ending 30 September 2020 due to changes in the composition of the UMG's lease portfolio, the application of practical expedients and recognition exemptions and changes to material judgement areas.

The impact of the adoption of AASB 16 has not been included in the UMG Pro Forma Historical Financial Information as the information has been prepared under AASB 117, which is the standard that was applicable during the historical periods presented.

(d) Explanation of Certain Non-IFRS Financial Measures

UMG uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this Section 2.17 as non-IFRS financial measures pursuant to Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS financial measures referred to in this Section 2.17 are as follows:

- **EBIT** is the earnings of continuing operations before recognising:
 - interest revenue, interest expense or financing costs; and
 - income taxation expense.
- **EBITDA** is earnings of continuing operations before recognising:
 - depreciation and amortisation expense;
 - interest revenue, interest expense or financing costs; and
 - income taxation expense.
- **NPAT** is net profit after tax.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash and cash equivalents.
- **Net free cash flows** is net operating cash flows after net capital expenditure, finance costs and taxation.
- **Working capital** represents inventories, inventory funding facilities, trade and other receivables and trade and other payables.
- **Significant items** those items not in the ordinary course of business, non-recurring and material in nature and amount.

(e) Segment Reporting

UMG segments are organised and managed separately according to the nature of the products and services provided. The UMG Board and UMG's senior management team (the chief operating decision makers) monitor the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment.

The Corporate segment for UMG represents a portion of the total incremental operating costs incurred in establishing a standalone ASX listed entity. Additional operating costs include UMG Directors fees, remuneration and incentives for senior management, additional headcount to establish a listed corporate office, insurance costs and IT services.

(i) *UMG Pro Forma Segment Information*

Set out below is the UMG Pro Forma Historical Segment Information for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

Pro forma Historical Revenue

A\$m	Year ended 30-sep-16	Year ended 30-sep-17	Year ended 30-sep-18	Year ended 30-sep-19
Processing	892.7	839.4	878.4	1,001.4
Warehouse / Distribution	249.4	262.5	306.5	349.8
Corporate	-	-	-	-
Inter segment revenue	(27.3)	(27.5)	(32.5)	(34.7)
Pro forma historical revenue	1,114.8	1,074.4	1,152.4	1,316.5

Pro forma Historical EBITDA

A\$m	Year ended 30-sep-16	Year ended 30-sep-17	Year ended 30-sep-18	Year ended 30-sep-19
Processing	127.8	119.7	126.7	129.1
Warehouse / distribution	27.9	32.6	35.2	37.6
Corporate	(6.5)	(6.5)	(6.5)	(6.5)
Pro forma historical EBITDA	149.2	145.8	155.4	160.2

(f) **UMG Pro Forma Historical Income Statements**

Set out below is the UMG Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

(i) *UMG Pro Forma Historical Income Statements*

A\$m	Year ended 30-sep-16	Year ended 30-sep-17	Year ended 30-sep-18	Year ended 30-sep-19
Revenue	1,114.8	1,074.4	1,152.4	1,316.5
Other income	0.1	9.7	14.9	(3.3)
Expenses	(965.7)	(938.3)	(1,011.9)	(1,153.0)
EBITDA, excluding significant items	149.2	145.8	155.4	160.2
Depreciation and amortisation	(48.5)	(47.8)	(55.5)	(52.3)
EBIT, excluding significant items	100.7	98.0	99.9	107.9
Significant items	(2.9)	-	-	-
EBIT	97.8	98.0	99.9	107.9
Net financing costs	(11.9)	(11.7)	(11.7)	(11.4)
Income tax expenses	(25.1)	(27.7)	(10.0)	(26.1)
Pro forma historical NPAT	60.8	58.6	78.2	70.4

Notes:

GrainCorp to UMG Transitional Services Agreement: as described in Section 5.10(d)(i), GrainCorp and UMG have entered into the GrainCorp to UMG Transitional Services Agreement, under which GrainCorp will provide certain information technology, payroll, finance, office space and other corporate services to UMG for a transitional period after implementation of the Demerger, pending migration of those

services. This generates an income stream for GrainCorp after the Demerger and will be a cost for UMG, totalling approximately \$1 million. No pro-forma adjustment is reflected for this arrangement given the transitional nature. The ongoing requirement for these costs has been captured within standalone corporate costs (pro forma adjustment 2) detailed in Section 2.17(f)(iii).

The UMG Pro Forma Historical Income Statements and UMG Pro Forma Historical Cash Flow Statements include an estimate of insurance costs based on estimates from brokers. When the policy commences in the first half of calendar year 2020, there is a risk that the estimated cost of insurance for UMG may be higher than anticipated due to market factors or adverse claims performance. UMG continues to review its insurance cost estimates, considering both policy structure and scope. Insurance costs may be \$2M to \$4M higher than the amounts included in the UMG Pro Forma Historical Income Statements and UMG Pro Forma Historical Cash Flow Statements.

(ii) *Reconciliation of Historical EBIT to UMG Pro Forma Historical EBIT excluding significant items*

Set out below is the reconciliation of the UMG Historical EBIT to the Pro Forma Historical EBIT for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Historical EBIT	104.6	92.6	114.8	123.2
Significant items	3.1	15.8	-	-
Historical EBIT, excluding significant items	107.7	108.4	114.8	123.2
(1) GrainCorp Malt Germany historical EBIT, excluding significant items	7.9	4.5	-	(0.4)
(2) Estimated additional standalone corporate costs	(14.9)	(14.9)	(14.9)	(14.9)
Pro forma historical EBIT, excluding significant items	100.7	98.0	99.9	107.9

An explanation of the adjustments made to EBIT are detailed below in Section 2.17(f)(iii).

(iii) *Reconciliation of Historical NPAT to UMG Pro Forma Historical NPAT*

Set out below is the reconciliation of the UMG Historical Net Profit after Tax to the Pro Forma Historical Net Profit after Tax for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Historical net profit after tax	64.7	49.7	93.5	83.5
(1) GrainCorp Malt Germany historical EBIT, excluding significant items	7.9	4.5	-	(0.4)
(2) Estimated additional standalone corporate costs	(14.9)	(14.9)	(14.9)	(14.9)
(3) GrainCorp Malt Germany significant items	0.2	15.8	-	-
(4) Net financing costs adjustment	(3.1)	(2.5)	(2.1)	(1.8)
(5) Net income tax expenses adjustment	6.0	6.0	1.7	3.9
Pro forma historical NPAT	60.8	58.6	78.2	70.4

Notes:

Historical net profit represents the historical NPAT of UMG prior to the Demerger occurring, extracted from the financial statements of GrainCorp for the periods presented above. An explanation of the pro-forma adjustments is detailed below:

- (1) Historical results for UMG included the results of GrainCorp Malt Germany which ceased operations in 2017. As the German business is discontinued, these results have been removed from the UMG Pro Forma Historical Income Statement for all periods presented.
- (2) Following the Demerger, UMG will be a standalone entity, listed on the ASX. As a standalone entity, UMG will incur additional operating costs of \$14.9 million per annum. Additional operating costs include UMG Directors' fees, senior management remuneration and incentives, additional headcount to establish a listed office, insurance costs and IT services.
- (3) Represents the removal of impairment of assets and loss on disposal of assets related to GrainCorp Malt Germany plants which ceased operations in FY17 as detailed in adjustment 1 above. These amounts were disclosed as Significant Items in GrainCorp's financial report for the years ended 30 September 2016 and 30 September 2017.
- (4) Represents the removal of finance costs associated with existing banking facilities and inclusion of estimated finance costs that would have been incurred in each period, had the post-Demerger capital structure been in place from the start of FY16, as described in Section 2.17(i).
- (5) The tax impact attributable to the pro-forma adjustments that are subject to tax has been calculated using an effective tax rate based on the applicable tax rate of each entity.

(iv) *Management Discussion on Pro Forma Historical Performance*

Commentary on UMG's pro forma historical financial performance for the period 1 October 2015 to 30 September 2019 is outlined below. Additional commentary is

provided in GrainCorp's annual reports and half year reports, which are available on GrainCorp's website at www.graincorp.com.au or the ASX website (www.asx.com.au).

FY16

UMG delivered EBITDA of \$149.2 million in FY16, supported by strong malt sales volumes, high capacity utilisation and operational improvements in energy usage, water management and labour efficiency. The business experienced strong demand for specialty products in North American craft beer and global distilling markets and continued to progress the expansion of its craft distribution network, opening four new warehouses in North America.

FY17

UMG delivered EBITDA of \$145.8 million in FY17, down ~2% on the previous year, with continued strong demand for malt and brewing ingredients/products from craft beer and distilling customers. The result included an approximate \$7 million unfavourable foreign exchange impact from the higher Australian dollar (in comparison to USD, CAD and GBP). UMG completed the expansion of its malt plant in Pocatello, Idaho in quarter four, adding an additional 120ktpa of malting capacity.

FY18

UMG delivered EBITDA of \$155.4 million, up ~7% on the previous year, with continued high capacity utilisation and a full second-half contribution from the expanded malt plant at Pocatello, Idaho. The result included an approximate \$4 million increase in Australian energy costs compared to the previous year. In the fourth quarter, UMG decommissioned and sold its malt plant in Burnley, Victoria (which had capacity of 23ktpa).

FY19

UMG delivered EBITDA of \$160.2 million, up ~3% on the previous year, with high capacity utilisation and strong customer demand. The result included a large skew in earnings to the second half, reflecting increased beer consumption in the northern hemisphere in the summer months, lower barley supply in eastern Australia which added cost in the first half, and a snowstorm in Canada which restricted deliveries in the first half.

(g) UMG Pro Forma Historical Cash Flow Statements**(i) UMG Pro Forma Historical Cash Flow Statements**

Set out below is the UMG Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
EBITDA, excluding significant items	149.2	145.8	155.4	160.2
Change in working capital & other	50.3	(0.3)	(76.1)	(49.0)
Net operating cash flows (before capital expenditure, financing costs and tax)	199.5	145.5	79.3	111.2
Capital expenditure (net proceeds)	(129.5)	(92.0)	(33.8)	(47.7)
Net operating cash flows (before financing costs and tax)	70.0	53.5	45.5	63.5
Net interest (1)	(11.9)	(11.7)	(11.7)	(11.4)
Tax paid (2)	(25.5)	(10.5)	(16.8)	(19.3)
Pro forma net free cash flows	32.6	31.3	17.0	32.8

Notes:

- (1) Pro forma interest paid represents the estimated finance costs associated with the new debt financing arrangement for UMG that would have been paid had the post-Demerger capital structure been in place from the beginning of FY16 which have been assumed to be the same as the pro forma net financing costs in the pro forma historical income statement.
- (2) Represents the pro forma income tax paid attributable to UMG.

The segment note within GrainCorp financial statements does not separately present Malt segment cash flows. Therefore, no reconciliation to the GrainCorp segment note has been provided for UMG cashflows.

(ii) Management Discussion on Pro Forma Historical Cash Flows

UMG historical net free cash flows (before net capital expenditure, net interest paid and tax paid) reflect cash conversion of EBITDA of 134%, 100%, 51% and 69% in FY16, FY17, FY18 and FY19 respectively.

- (A) FY16 working capital movements reflect inflows from inventory movements and associated inventory funding;
- (B) FY18 working capital requirements increased due to changes in customer credit terms, higher receivables with a full second half contribution from Pocatello plant, plus movements in inventory and associated inventory funding; and
- (C) FY19 working capital reflects higher receivable balances in Q4 with record sales volumes.

Major capital expenditure in FY16 to FY19 included:

- (A) \$105 million for the expansion of the malt plant in Pocatello, Idaho, in FY16/17 adding an additional 120kt of malting capacity;

- (B) \$5 million in FY19 for initial works on the distilling capacity expansion in Scotland, with planned upgrades to the Arbroath facility and building a new malting plant at the Inverness site; and
- (C) Total stay-in-business capex spend of \$96 million in FY16 to FY19, ranging from \$20m to \$28m per annum, which included above average spend for upgrading safety and efficiency standards.

Interest paid reflects interest on term debt and inventory funding facilities under the new financing structure. Refer to Section 2.17(i).

(h) UMG Pro Forma Historical Balance Sheet

Set out below is the UMG Pro Forma Historical Balance Sheet as at 30 September 2019.

A\$m	Reported	Financing structure	Transaction costs	Other	Pro forma
	(1)	(2)	(3)	(4)	
Cash and cash equivalents	181.4	(123.7)	(5.2)	-	52.5
Trade and other receivables	249.8	-	0.2	-	250.0
Intercompany receivables	58.4	(58.4)	-	-	-
Inventories	347.9	-	-	-	347.9
Derivative financial instruments	4.6	-	-	-	4.6
Current tax assets	19.7	-	-	-	19.7
Total current assets	861.8	(182.1)	(5.0)	-	674.7
Trade and other receivables	0.4	-	(0.4)	-	-
Deferred tax assets	6.1	-	1.2	-	7.3
Property, plant and equipment	609.8	-	-	11.2	621.0
Intangible assets	353.7	-	-	-	353.7
Derivative financial instruments	0.3	-	-	-	0.3
Retirement benefit asset	2.8	-	-	-	2.8
Total non-current assets	973.1	-	0.8	11.2	985.1
Total assets	1,834.9	(182.1)	(4.2)	11.2	1,659.8
Trade and other payables	(169.1)	-	-	-	(169.1)
Intercompany payables	(756.5)	756.5	-	-	-
Borrowings	(142.8)	-	-	(0.2)	(143.0)
Derivative financial instruments	(10.2)	-	-	-	(10.2)
Current tax liabilities	(7.3)	-	-	-	(7.3)
Provisions	(8.9)	-	-	-	(8.9)
Total current liabilities	(1,094.8)	756.5	-	(0.2)	(338.5)
Trade and other payables	(19.7)	-	-	-	(19.7)
Borrowings	(259.9)	(74.9)	-	(8.3)	(343.1)
Derivative financial instruments	(5.3)	-	2.1	-	(3.2)
Deferred tax liabilities	(80.3)	-	-	-	(80.3)
Provisions	(2.5)	-	-	-	(2.5)
Retirement benefit obligations	(17.2)	-	-	-	(17.2)
Total non-current liabilities	(384.9)	(74.9)	2.1	(8.3)	(466.0)
Total liabilities	(1,479.7)	681.6	2.1	(8.5)	(804.5)
Net assets	355.2	499.5	(2.1)	2.7	855.3
Total equity	355.2	499.5	(2.1)	2.7	855.3

Notes:

Detailed below is an explanation of the pro forma adjustments made to the UMG reported balance sheet as at 30 September 2019:

- (1) Represents the assets and liabilities held by UMG as at 30 September 2019 prior to the Demerger occurring, as extracted from the financial information used for the segment note reported in the GrainCorp financial statements for the period ended 30 September 2019.
- (2) Represents the change in financing structure to the new financing arrangements that will take effect on implementation of the Demerger, described in Section 2.17(i), inclusive of the settlement of intercompany balances between UMG and GrainCorp as part of the Demerger.
- (3) Represents one-off transaction costs (including the deferred tax impact) related to preparing for and implementing the demerger, including advisor fees, financing and debt structuring, employee and technology costs.
- (4) Other includes a land transfer for a parcel at Pinkenba, Brisbane, which is jointly used by UMG and GrainCorp, with access to the GrainCorp storage sheds and UMG malting plant. The transfer includes a finance lease with the Department of Natural Resources Mining and Energy (DNRME). A lease agreement between UMG and GrainCorp will continue to provide GrainCorp with access to the storage sheds.

(i) **UMG Facilities & Cash Overview**

(A) UMG Debt Facilities

UMG has historically been funded through a combination of internal cash flows and external debt facilities held by GrainCorp.

Following the Demerger, funding for UMG will be sourced from a combination of its internally generated cash flows and bilateral loan facilities in aggregate totalling \$737 million (**UMG Facilities**).

As at the date of this Demerger Scheme Booklet, the UMG Facilities are committed and currently available to UMG. The lenders have provided their consent to the Demerger and, subject to various conditions being satisfied (which are summarised in the table below), the UMG Facilities will be automatically amended upon the implementation of the Demerger so that the UMG Facilities remain available to UMG after the Demerger (the **Demerger Amendment**).

The UMG Facilities contain market standard terms and conditions for facilities of this nature. The key terms of the UMG Facilities are as follows:²⁶

Facility Type	Term Facilities	Working Capital Facilities	Inventory Facilities
Currency	Australian dollars (with optional currencies as required)	Australian dollars (with optional currencies as required)	Australian dollars (with optional currencies as required)
Commitments	A\$360m	A\$160m	A\$217m

²⁶ Certain loan facilities are in foreign currencies – this Australian dollar figure is based on the relevant exchange rates as at 8 November 2019.

Facility Type	Term Facilities	Working Capital Facilities	Inventory Facilities
Maturity	November 2022, which may be extended on an evergreen basis.	November 2020. Facility renewed each year to align with the seasonal requirements of the business.	November 2020. Facility renewed each year to align with the seasonal requirements of the business.
Applicable interest rates	With respect to a loan denominated in: <ul style="list-style-type: none"> • Australian dollars, BBSY; or • any foreign currency, the base rate customary for loans in that currency, plus any applicable margin. 		Cost of funding plus any applicable margin
Security	Unsecured		Commodity inventory pledged as security
Conditions precedent to Demerger Amendment	<ul style="list-style-type: none"> • The Demerger being implemented by 8 May 2020 (or such later date as agreed by the lenders). • Delivery of a verification certificate attaching customary documentation and certifications relating to the Demerger. 		
Representations, Undertakings, Financial Covenants and Events of Default	The UMG Facilities currently contain representations, undertakings, financial covenants and events of default that are consistent with the position GrainCorp has negotiated on previous facilities.		
Covenants	The UMG facilities contain financial undertakings which are customary for a facility of this nature and include a leverage ratio and an interest cover ratio.		
Review Event	The UMG Facilities contain customary review events for facilities of this nature including GrainCorp (or following the Demerger Amendment, UMG) being delisted or suspended from trading for a period of 10 Business Days or a change of control of GrainCorp (or following the Demerger Amendment, UMG) occurring.		
Guarantors	<p>The UMG Facilities are currently guaranteed by certain members of the GrainCorp Pre-Demerger Group.</p> <p>Following the Demerger, the UMG Facilities will be guaranteed by certain members of the UMG Group.</p>		

(B) Cash and Debt Overview

The table below sets out UMG's net financial indebtedness as at 30 September 2019, after giving pro forma effect to the Demerger:

A\$m	Historical Pro Forma
Cash and cash equivalents	53
Debt:	
Term	335
Working Capital	-
Inventory	143
Lease liabilities	8
Net financial indebtedness	433

The UMG Board has confirmed that it considers this level of indebtedness and combination of cash and bilateral loan facilities to be appropriate at the time of the Demerger with regard to the financial profile of UMG as a standalone, ASX-listed company.

As described in Section 2.8(a), UMG's pro forma balance sheet as at 30 September 2019 includes net debt of \$433 million. The actual balance upon implementation of the Demerger will be subject to variances in actual cash flows in UMG between 30 September 2019 and the Demerger Implementation Date, including capital expenditure and seasonal fluctuations in working capital. UMG has a policy of maintaining a strong, investment grade capital structure and maintaining a ratio of net debt to EBITDA of 2.0 – 2.5 times to preserve balance sheet strength and flexibility, however, as a result of the seasonality of the UMG Business and the related working capital requirements (which are higher at 31 March and lower at 30 September), this ratio is likely to be exceeded at times during the course of a financial year.

(j) Derivative Financial Instruments and Risk Management

UMG will continue to enter into foreign exchange derivatives to hedge a portion of its foreign exchange exposure associated with export contracts and sale or purchase of malt denominated in foreign currency (predominantly USD, Euro, GBP, JPY). UMG will also continue to enter interest rate derivatives to hedge a portion of the interest rate risk associated with its debt.

UMG's financial risk management will, however, ultimately be a matter for the UMG Board and senior management to develop over time and is subject to change or alteration as circumstances require.

(k) Taxation

UMG entities are charged and pay taxation at the prevailing tax rate in each jurisdiction, and Australian UMG entities are part of GrainCorp's Australian tax consolidated group. At the time of the Demerger, UMG's Australian entities will exit GrainCorp's Australian tax consolidated group and form a new tax consolidated group for the purposes of Australian income tax. The Demerger will not result in any changes to tax lodgings for UMG's overseas entities.

The income tax charge attributable to UMG has been prepared based on the taxation charge attributable to the individual entities that make up UMG, in the relevant tax jurisdictions, on a separate return basis. UMG entities operate in several countries with differing tax rates.

The effective tax rates for the periods to which the UMG Pro Forma Historical Financial Information relates were 33%, 33%, 10% and 24% in FY16, FY17, FY18 and FY19 respectively.

On 22 December 2017, US tax reform legislation was enacted which reduced the US Federal Corporate Tax rate from 35% to 21%. The initial impact of this change was to adjust the carrying value of the UMG Group's US deferred tax balances which resulted in a deferred tax credit of \$18.7m in FY18.

(l) Lease Commitments

Set out below are UMG's operating lease commitments contracted for at the reporting date, but not recognised as liabilities on the balance sheet as at 30 September 2019.

Lease Commitments Summary:

A\$M	As at 30-Sept-19
Within 1 year	13.5
1 to 5 years	40.4
More than 5 years	42.7
Total operating lease commitments	96.6

The lease commitments in the table above are determined in accordance with AASB 117 being the lease standard that was applicable at 30 September 2019. A new lease standard will be applicable from 1 October 2019, as discussed in Section 2.17(c).

(m) Material changes in financial position since most recent balance date

The most recent published financial statements of GrainCorp are the Annual Report and Appendix 4E for the year ended 30 September 2019, which were released to the ASX on 14 November 2019. To the knowledge of the GrainCorp Directors, as at the date of this Demerger Scheme Booklet, the financial position of UMG has not materially changed since 30 September 2019, except as disclosed in this Demerger Scheme Booklet or as otherwise announced to the ASX by GrainCorp.

SECTION 3

Information on GrainCorp after the Demerger

3.1 Overview of GrainCorp's businesses

GrainCorp is, and after the Demerger will continue to be, a leading diversified Australian agribusiness, with an integrated operating model connecting growers to domestic and international consumers in over 30 countries spanning four continents.

GrainCorp's business model involves the provision of a wide range of storage and logistics, value-added processing and sales and marketing services to a diverse domestic and international customer base of producers, consumers and traders of grains, oilseeds, oils and other commodities.

Underpinning GrainCorp's business are Australian and New Zealand supply chain infrastructure assets including the leading East Coast Australia (**ECA**) network of upcountry receivals sites, well-positioned bulk import / export ports and edible oils processing assets.

GrainCorp operates under two business segments:

- **Agribusiness** operations – a leading Australian end-to-end grains and oils supply chain business with diversified international grains and oils origination and destination capabilities. The key commodities and products handled and traded by this segment include wheat, coarse grains (including barley, sorghum and corn), oilseeds, pulses and organics.
- **Processing** operations – a vertically integrated edible oils crushing, processing, manufacturing and distribution business with a strong and well-invested footprint across both Australia and New Zealand.

As at 30 September 2019, GrainCorp had approximately 1,980 employees globally.

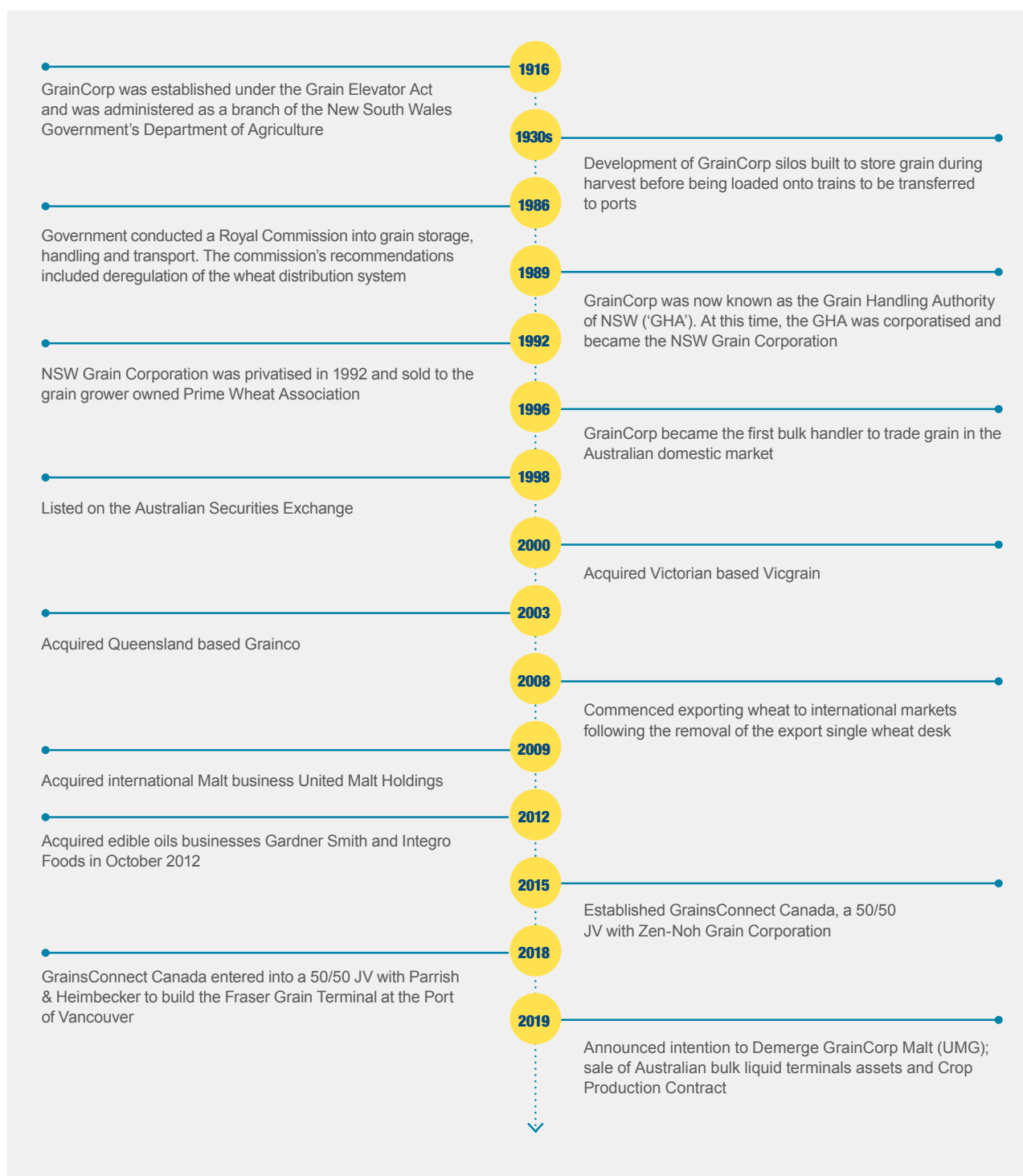
Figure 3.1(a): Overview of GrainCorp

	Agribusiness		Processing
	Australia	International	Australia & New Zealand
Key assets	<ul style="list-style-type: none"> • ~145 country receival sites (20Mt storage) • 7 bulk import / export port facilities • 4 liquid feeds distribution centres • 6 used cooking oil collection, recycling and distribution centres • 1 bulk liquid storage terminal 	<ul style="list-style-type: none"> • 4 high-capacity state-of-the-art elevators with 134-car rail loops in Canada, through a 50/50 JV with Zen-Noh Grain Corporation, GrainsConnect Canada • Port terminal at the Port of Vancouver, with 4mmt of export capacity through a 50/50 JV between GrainsConnect Canada and Parrish & Heimbecker • 5 bulk liquid storage terminals in New Zealand • 1 bulk liquid storage terminal in Shanghai 	<ul style="list-style-type: none"> • 2 oilseed crushing plants (one with refining capability) • 2 edible oils processing and refining plants
Selected key operating metrics	<ul style="list-style-type: none"> • ~15mmt p.a. bulk export capacity 	<ul style="list-style-type: none"> • Sells and delivers approximately 8mmt p.a. of products to customers in 30+ countries 	<ul style="list-style-type: none"> • ~400,000mt p.a. of oilseed crushing capacity • ~290,000mt p.a. of oil refining, bleaching & deodorising (RBD) capacity

In addition to the two business segments above, as described in Section 3.6(a) below, immediately after implementation of the Demerger, GrainCorp will hold a 10% stake in UMG to provide GrainCorp with additional balance sheet resources and financing flexibility.

In 2016, GrainCorp celebrated its 100th year in operation, built on collaborative partnerships with growers and customers around the world. Over this time, GrainCorp has grown through acquisitions and organic growth. A brief history of GrainCorp is set out below.

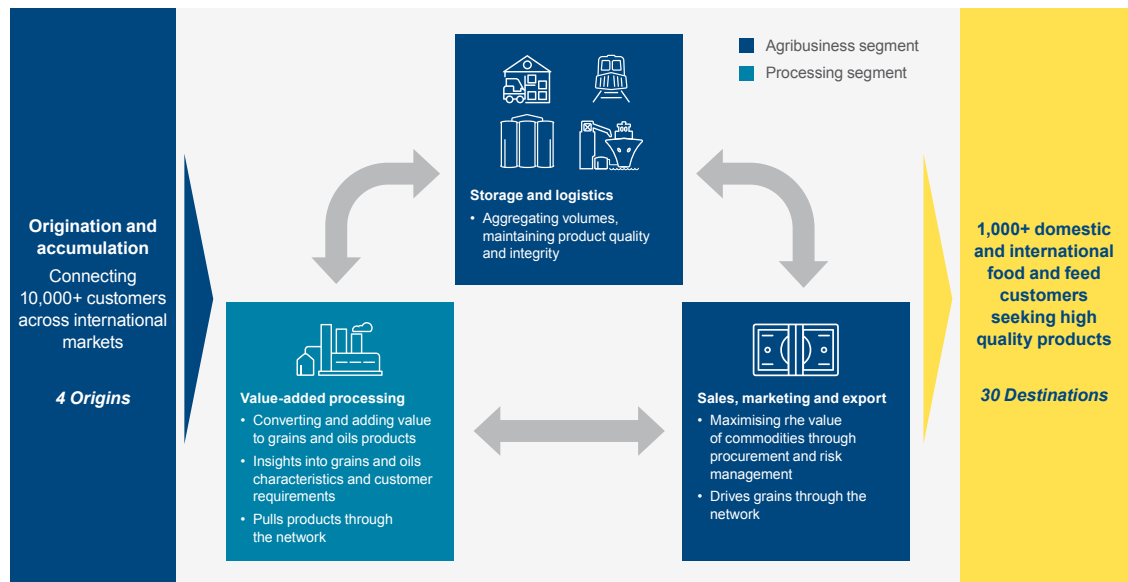
Figure 3.1(b): History of GrainCorp



3.2 GrainCorp's key strengths

(a) Integrated operating model capturing the value of agricultural products across the value chain

GrainCorp uses its integrated operating model combining storage and logistics, value-added processing and sales and market capabilities to connect more than 10,000 grower customers with more than 1,000 end-market customers in the food, beverage, edible oils and animal feed industries in domestic and international markets.



GrainCorp also provides supply chain solutions to customers outside the agricultural sector, including the handling and import/export of bulk commodities such as woodchips, sand, sugar, cement, aggregates and fertiliser.

Having an integrated platform of assets and operations enables GrainCorp to create and capture value across the value chain.

(b) Australian and New Zealand supply chain infrastructure assets

GrainCorp's infrastructure plays a critical role in the eastern Australian grains and oilseed domestic and export supply chain. GrainCorp's up-country receivals network and its port infrastructure enable GrainCorp and third parties to accumulate, store and transport grains and other commodities for delivery to domestic and international customers. GrainCorp's infrastructure assets have handled approximately 75% of eastern Australian bulk grain and oilseed exports, comprising both GrainCorp and third party owned commodities, over the past five years.

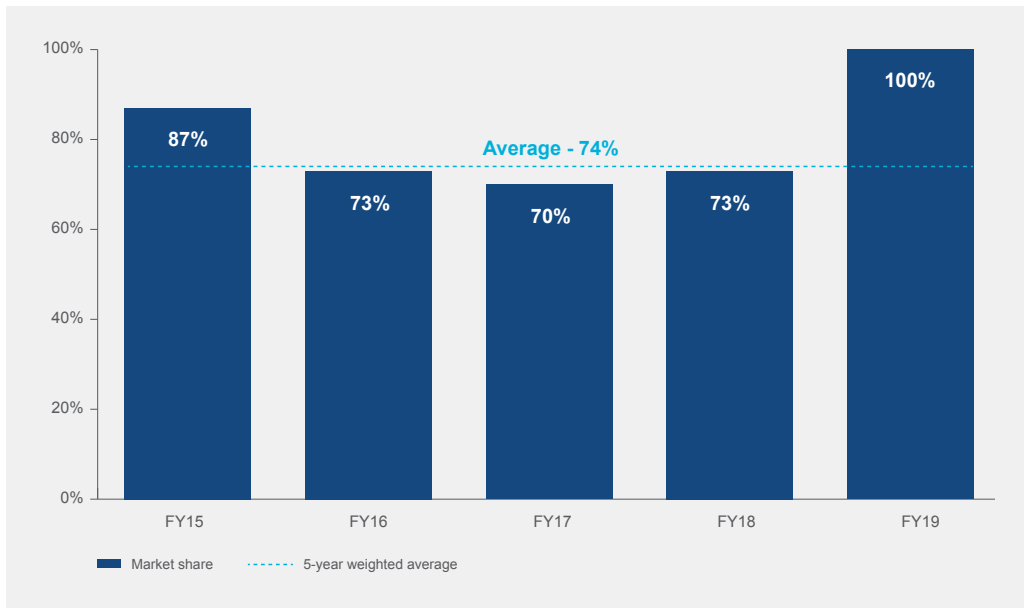
In addition, GrainCorp owns and operates a network of oils and liquid feeds storage, handling and recycling assets in Australia and New Zealand as part of its vertically integrated oils business.

Australia and New Zealand supply chain infrastructure network



GrainCorp has consistently held a substantial share of ECA bulk exports over the past five years

GrainCorp share of ECA bulk grain exports



(c) GrainCorp leverages its significant Australian ports infrastructure to import and export grain and other commodities

In FY19, GrainCorp handled approximately 6mmt of bulk commodities and other products by providing import and export services at its seven port facilities across the eastern seaboard of Australia.

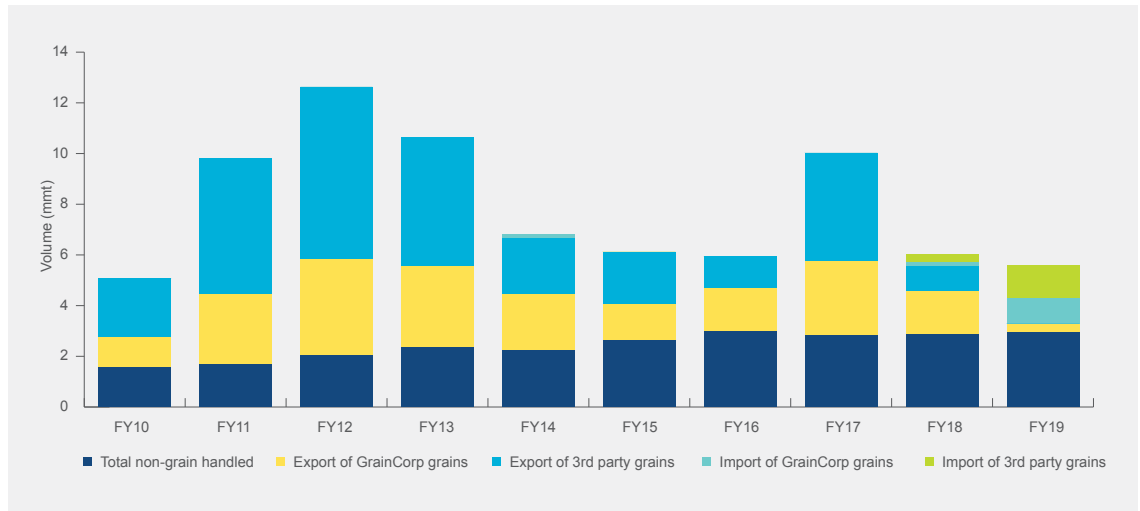
In addition to the bulk export of GrainCorp-owned and third-party grains, oilseeds and pulses, GrainCorp utilises its portside storage, logistics and elevation assets for the import/export of other commodities.

This includes wood chips, sand, sugar, cement, aggregates, fertiliser, protein meals and liquid agri-products, amongst other commodities.

Since FY12, non-grain volume handled through GrainCorp's infrastructure assets has increased by 45% (a CAGR of 5.5%). Handling non-grain commodities through these assets provides a consistent and stable level of earnings.

GrainCorp also has the capability to utilise its port-side infrastructure to import grains, oilseeds and pulses to satisfy domestic demand, particularly in low domestic production years.

Total import / export volumes



(d) Diversified, international customer base

GrainCorp provides services and solutions to more than 10,000 customers across the full grains and oilseeds supply chains, including growers, traders and processors through to end-market customers in more than 30 countries.

GrainCorp has built its customer base over many decades, utilising both the key strengths of the company as well as the competitive advantages of the Australian grain and oilseed industries, such as product safety and quality, leading agronomic practices and proximity to Asia and Middle East.

GrainCorp's core customer groups include:

	Grain and oilseed growers	Commodity traders / merchandisers	End consumers	Food and Feed processors
Description	Over 10,000 growers of grain and oilseeds internationally	Includes commodity traders, merchandisers, importers / exporters	Includes farmers (animal feed), Quick Service Restaurants / bakeries	Includes oilseed crush plants / refineries, maltsters, flour millers, feedstock producers, food manufacturers

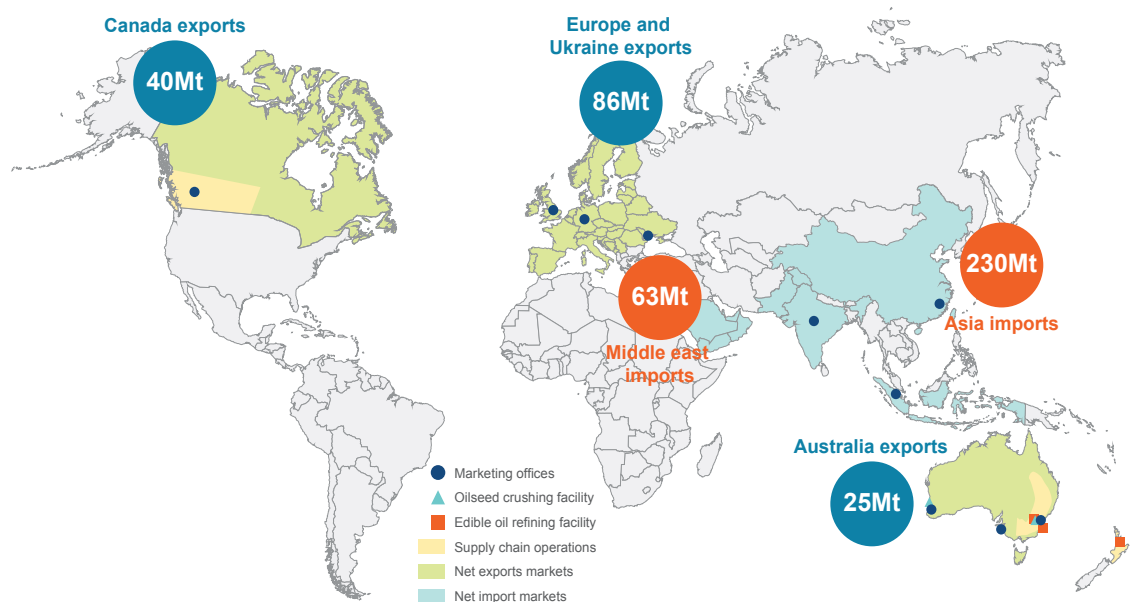
GrainCorp offers multiple service offerings and areas of expertise to its customer groups including:

- (i) Liquidity, access to markets;
- (ii) Product quality, consistency, reliability;
- (iii) Technical & product knowledge / expertise;
- (iv) Integrated supply chain / network scale; and
- (v) Innovation, product development.

(e) International platform enables GrainCorp to meet customer demand and generate market insights

To meet the needs of its international customer base, GrainCorp continues to develop an international footprint through targeted expansion across Australia, New Zealand, North America, Asia and Europe.

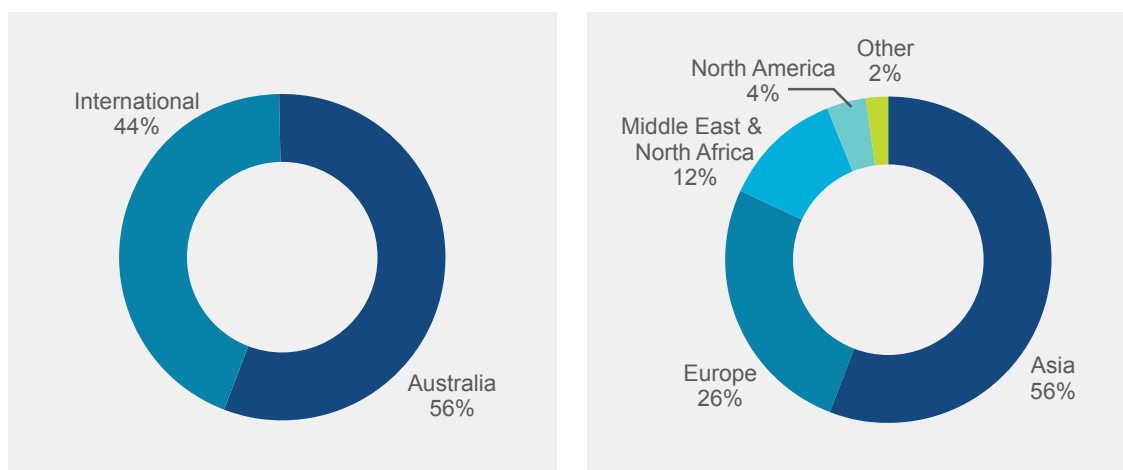
GrainCorp's international footprint



GrainCorp is present in regions that account for over 40% of international trade in GrainCorp's core grains. This presence allows GrainCorp to match origination and destination markets through seasonal cycles, ensuring commodities of different variety, quality and value can be sourced and supplied to customers. Additionally, GrainCorp's international presence generates insights into market trends and customer requirements, thereby improving supply-chain optimisation and decision making.

International sales over the last five financial years (FY15-FY19 inclusive) comprised on average 44% of GrainCorp's total sales by value.

Geographical split of sales by value (5-year average)



(f) Our vertically integrated edible oils business is well-positioned to maximise value for customers

GrainCorp operates a leading vertically integrated edible oil refining, processing, manufacturing and distribution business with a strong footprint across Australia and New Zealand. GrainCorp's oil products are used in the production of a wide range of food and animal feed products.

GrainCorp's market position, in relation to other industry participants, is strengthened by its vertical integration, scale of operations and access to a large oilseeds accumulation network.

(g) Experienced Board and management team

GrainCorp has an experienced leadership team with a well-developed corporate infrastructure. The management team will be led by Mr Robert Spurway who will become GrainCorp's Managing Director and Chief Executive Officer as part of implementation of the Demerger.

After implementation of the Demerger, the GrainCorp Board will continue to combine extensive agricultural, domestic and international commercial, financial, capital markets, board and governance experience.

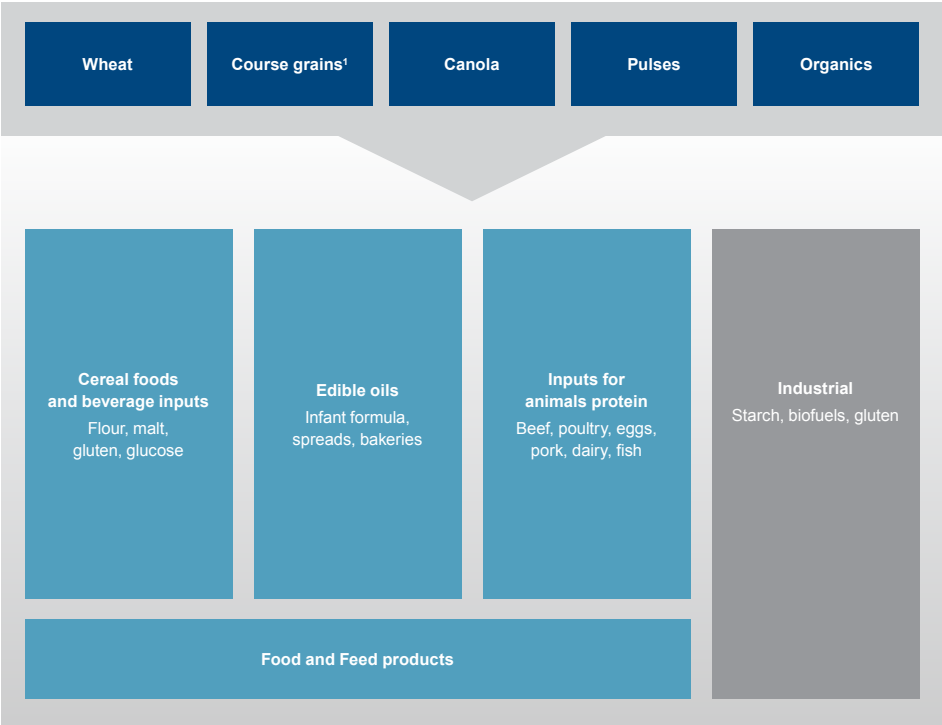
See Section 3.7 for further information on the GrainCorp Board and senior management of GrainCorp after the Demerger.

3.3 Australian grains and oilseeds industry overview

The grains and oilseeds agricultural supply chains begin at the farm with the production of crops including wheat, coarse grains, oilseeds and pulses. Grain and oilseed production is dependent on a number of factors including soil characteristics, climate and rainfall, supply and demand factors, and other economic considerations.

After harvest, growers store their production either in third party facilities (such as GrainCorp's upcountry storage network) or on farm. Growers have the ability to sell to customers directly or alternatively to market their commodities to third party commodity traders in order to access a wider domestic or international customer base. Transport from on-farm or up-country storage to domestic consumers or to port terminals for export occurs via a combination of road and rail freight.

Once at their end-market, grains and oilseeds are an important input into the global food chain.

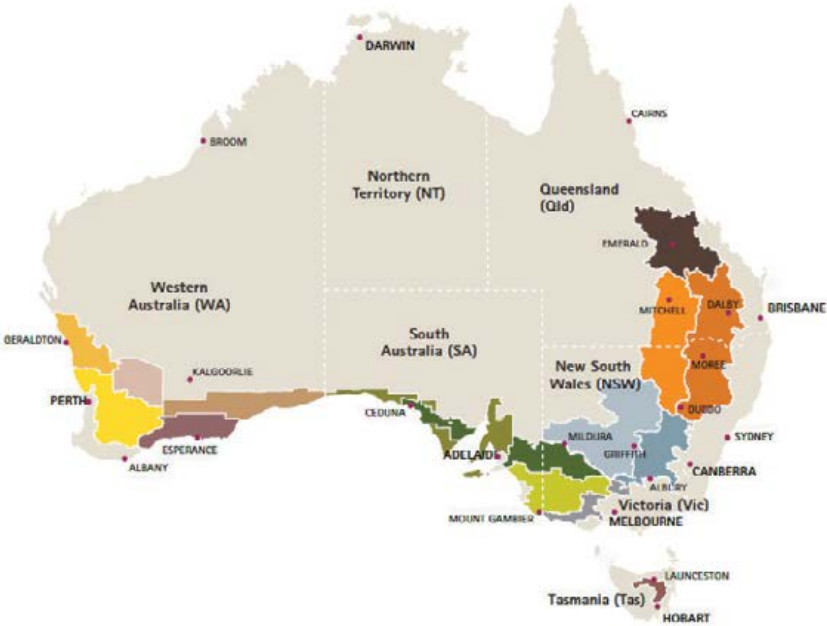


Note: 1. Coarse grains includes barley, sorghum and corn.

(a) Supply of grains and oilseeds

In Australia, production is dominated by winter crops, sown between March and June, depending on the geographical location of farms and the timing of rainfall. Winter crops are generally grown in eastern, southern and south-western Australia (see Figure 3.3(a)(i)). Summer crops are grown in central and south-eastern Queensland and northern New South Wales. Traditionally, most regions in Australia can only produce one crop per year, but some areas can produce both a summer and winter crop due to favourable soil types and climate.

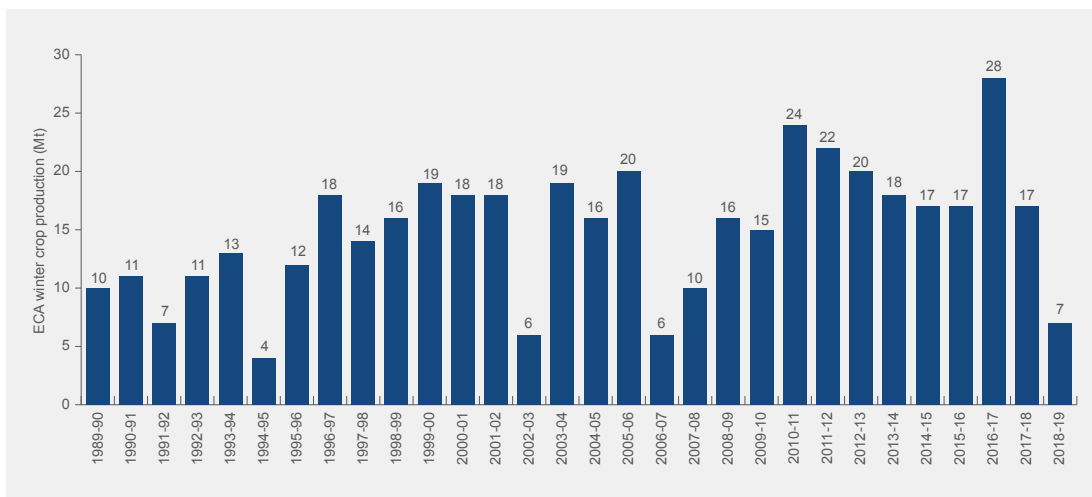
Figure 3.3(a)(i): Australian agro-ecological zones and crops grown by zone



	Agroecological zone	Season	Dominant crops grown
	WA Northern	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola, faba beans, chickpeas
	WA Central	Winter	Wheat, barley, oats, triticale, cereal rye, lupins, field peas, canola, faba beans, chickpeas
	WA Eastern	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola, faba beans, chickpeas
	WA Sandplain and Mallee	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola, faba beans, chickpeas
	SA Mid-north – Lower Yorke, Eyre	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola, chickpeas, faba beans, vetch, safflower
	SA – Victoria Mallee	Winter	Wheat, barley, oats, triticale, cereal rye, lupins, vetch, canola, field peas, chickpeas, faba beans, safflower
	SA – Victoria Border – Wimmera	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola, chickpeas, faba beans, vetch, lentils, safflower
	Victoria High Rainfall	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola
	NSW – Victoria Slopes	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola
	NSW Central	Winter	Wheat, barley, oats, chickpeas, triticale, faba beans, lupins, field peas, canola, safflower
		Summer	Sorghum, sunflowers, maize, mungbeans, soybeans, cotton
	NSW North West – Qld South West	Winter	Wheat, barley, oats, chickpeas, triticale, faba beans
		Summer	Sorghum, sunflowers, maize, mungbeans, soybeans, cotton
	NSW North East – Qld South East	Winter	Wheat, barley, oats, chickpeas, triticale, faba beans, millet/panicum, safflower, linseed
		Summer	Sorghum, sunflowers, maize, mungbeans, soybeans, peanuts, cotton
	Qld Central	Winter	Wheat, barley, oats, chickpeas
		Summer	Sorghum, sunflowers, maize, mungbeans, soybeans, cotton
	Tasmania	Winter	Wheat, barley, oats, triticale, lupins, field peas, canola

Annual Australian crop production volume can experience large fluctuations in size, depending upon variations in weather conditions and planted area.

Figure 3.3(a)(ii): ECA winter crop size since 1990



(b) Demand for grains and oilseeds

The demand for grain and oilseeds is predominantly driven by macroeconomic trends. These include population growth, increasing global trade, higher discretionary incomes and the urbanisation of major Asian economies and other developing markets.

Additionally, changes in diets and consumer preferences, including the focus on health and wellbeing, higher demand for protein and organic foods, and an increased focus on food quality / premiumisation, drives demand for grains.

Further, consumers are becoming increasingly focussed on 'farm-to-plate' supply chains to ensure provenance, transparency and authenticity. Growing regions such as Canada and Australia have an advantage due to their strong reputation for quality and safety.

As a result of these underlying trends, grain and oilseed consumption is expected to continue to grow over the medium term both globally and in Asia.

Figure 3.3(b): Grains and oilseeds volume consumption over time

FY19 – FY25F volume consumption CAGR	Global	Asia
Wheat	1.1%	1.7%
Coarse grains	1.4%	1.4%
Oilseed	2.1%	2.7%

(c) **GrainCorp's international origination markets**

- (i) **Canada** – Wheat is Canada's largest crop and the single biggest export commodity followed by canola and corn. Canada is one of the top four wheat exporters globally and the world's largest producer of high-protein milling wheat.
- (ii) **Black Sea** – Globally, Ukraine is the second largest global exporter of corn, wheat and barley, averaging exports of 42Mtpa. It is also a competitive source of coarse grains (such as feed wheat, feed barley and corn) for human and animal feed consumption due to its low production costs.
- (iii) **UK / Europe** – In Europe, wheat is the largest arable crop followed by barley. Exports mainly comprise wheat and barley, with about 18% of Europe's wheat crop exported each year.

(d) **GrainCorp's international destination markets**

GrainCorp's international origination network enables year-round supply of high quality grain and oilseeds to customers located through Asia, North America, Europe and the Middle East.

3.4 Overview of GrainCorp's segments

(a) **Agribusiness**

GrainCorp's Agribusiness operations comprise an integrated grain storage, handling and trading business in eastern Australia, an integrated grain handling and trading business in western Canada (via the GrainsConnect Canada joint venture described below), and origination and destination marketing teams positioned internationally.

There are multiple pathways for grain and oilseeds to move from growers to end consumers, ranging from direct truck transfer from farm to domestic customer through to more extensive routes comprising country storage in a bulk handling facility followed by truck or rail transport to port, then shipment to an international customer.

GrainCorp plays an active role in all facets of grain and oilseed movement, as both an owner/marketer of the commodity and as a third-party service provider through its ownership of key supply chain assets.

GrainCorp's service fees are charged at various stages of the supply chain depending on where the grain or oilseeds are delivered (country silos or ports), whether they are stored or blended and whether they are sold to domestic or export customers. Fees are collected for receipt, outloading, storage, transport, blending, port booking and vessel loading.

GrainCorp charges storage, transport and port fees to third parties using its bulk terminals, importing and exporting products such as woodchips, sugar, sand and cement.

Where GrainCorp is marketing grain or oilseeds to a customer, it takes a position to seek to capture a margin between prices paid to growers and prices received from customers. Derivatives are used to hedge long and short positions, with GrainCorp exposed to several risks including basis risk (the risk that the cash price will differ from the futures price) and counterparty credit risk.

Revenue and profits in grain marketing are subject to variability in grain production, prices, the position taken by the marketer and risk management processes. Ownership of supply chain infrastructure is a significant competitive advantage as it enables the grain marketer to reliably source supply, provide customers with consistent quality, manage logistics more effectively, and have coordinated access to storage facilities.

Ownership of a global sales and procurement network allows marketers to develop stronger customer relationships, gain market insights, offer alternative supply sources and take advantage of arbitrage opportunities.

(i) *Australia & New Zealand*

GrainCorp's end-to-end grain and oilseed supply chain in Australia comprises 145 country receival sites, 20 million tonnes of storage capacity, seven bulk export / import terminals, four liquid feeds sites in Australia, five bulk liquid terminals in New Zealand, one bulk liquid terminal in Australia, and six used cooking oil sites.

GrainCorp's bulk liquid terminals store and handle edible oils, fats and chemicals. They are an important component of the fats and oil supply chain, linking processing and marketing of the commodity to supplying the end customer.

GrainCorp has a significant presence in the liquid feeds market, supplying liquid feed supplements, including molasses, in Australia and New Zealand. These operations are complementary to the supply of grains and processed canola meal (from oilseed processing operations).

GrainCorp's Auscol business is a leading Australian collector and recycler of used cooking oils and fats, which are primarily distributed to Asia for use as biofuels.



(ii) *International*

GrainCorp has a 50-50 joint venture in Canada with Zen-Noh Grain Corporation, GrainsConnect Canada, which is building a state-of-the-art supply chain to connect growers in Alberta and Saskatchewan to international markets.

GrainsConnect Canada comprises four country grain elevators with 134-car rail loops. It has recently formed a JV with Parrish & Heimbecker to build a new port terminal at the Port of Vancouver, Fraser Grain Terminal, which is expected to complete in CY2020.

GrainCorp has also recently opened offices in Ukraine and India to participate in these growing markets and improve GrainCorp's geographic footprint and commodity offering to customers. With international offices across four continents, GrainCorp can supply grains and oilseeds to customers in 30+ countries.

GrainCorp's presence in the UK and North America provides exposure to the growing organics market, with its network currently involved in sourcing and transporting organic grains and feed ingredients to organic food and feed manufacturers. GrainCorp's organics business has become one of the largest providers of organic feed grains for animal feed production in the United Kingdom.

(b) Processing

GrainCorp is a leading producer and distributor of edible oils in Australia and New Zealand, with its products used to produce a wide range of food and animal feed products.

GrainCorp's processing segment has leading crushing, refining and packaging capabilities and it is able to utilise GrainCorp's storage and logistics assets to accumulate and transport oilseeds in a cost-effective manner.

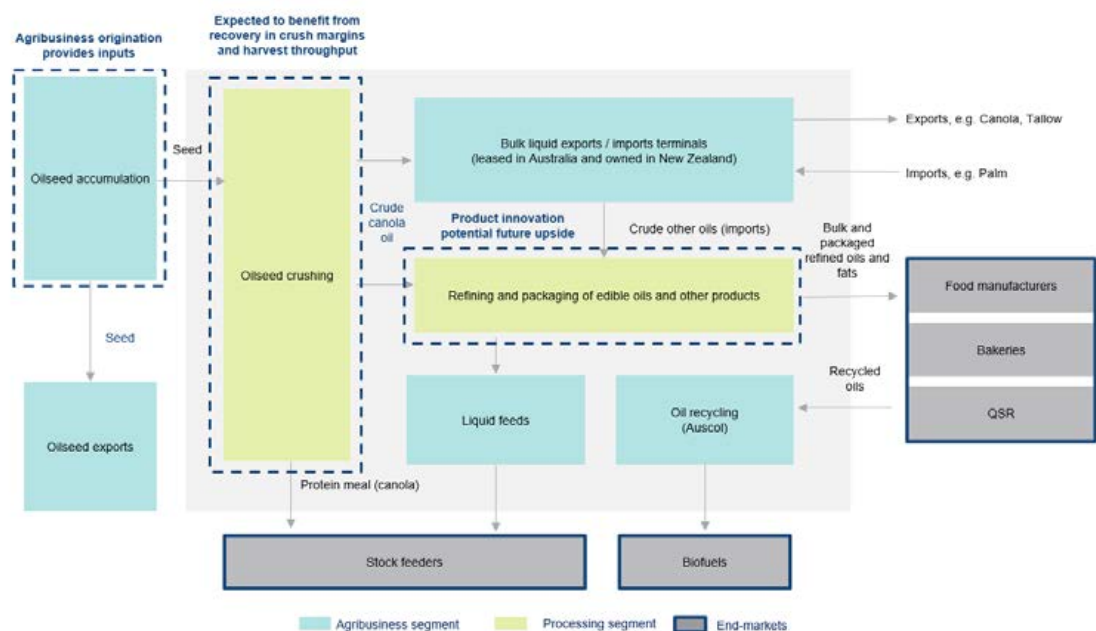
GrainCorp operates four strategically located manufacturing facilities as part of its vertically integrated edible oils processing infrastructure, providing broad capabilities and a low operating cost platform.

GrainCorp owns an oilseed crushing and refining facility in Numurkah, Victoria, and an oilseed crush plant in Pinjarra, Western Australia, with combined crush capacity of 400,000mt per annum.

GrainCorp has refining, bleaching and deodorising (RBD) capabilities at Numurkah and West Footscray (both in Victoria) and East Tamaki (in New Zealand), with combined RBD capacity of 290,000mt per annum.

GrainCorp's facility in West Footscray has capabilities in both food manufacturing and oil refining and utilises 12 packaging lines, eight industrial lines and four retail lines. The facility at East Tamaki also has both RBD and food manufacturing capabilities with eight packing lines, five industrial lines and three retail lines.

Figure 3.4(b): Edible oils processing and manufacturing capabilities are fully integrated

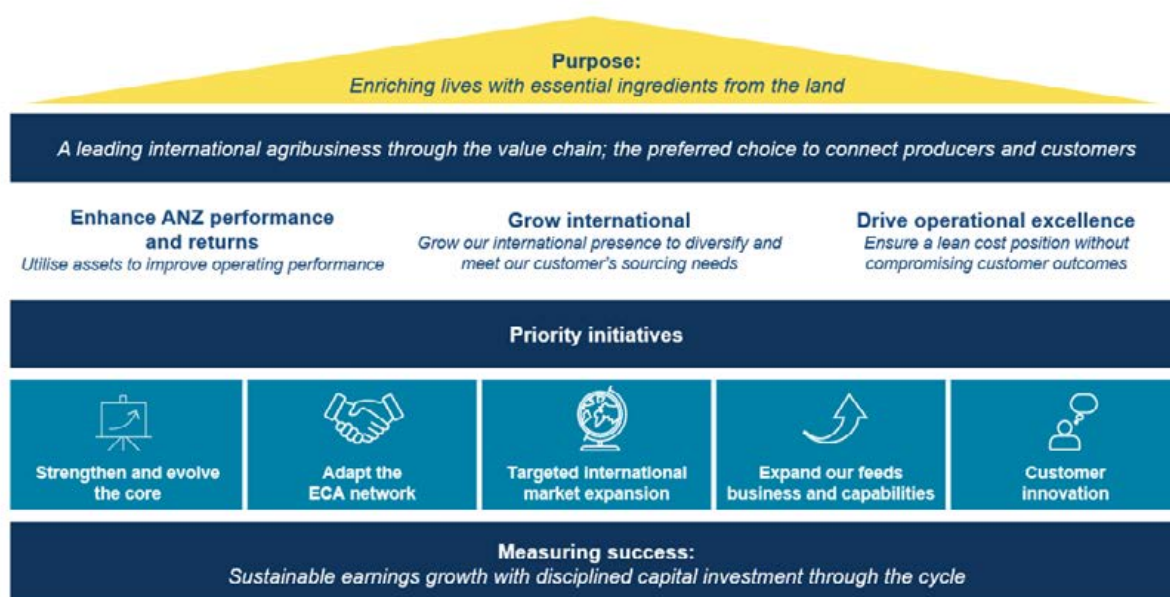


GrainCorp also has a focus on leveraging its supply chain network to capture value in selected adjacencies such as liquid feeds, fats and oils.

GrainCorp is an industry leader in the import / export and supply of value-added vegetable oils and tallow in Australia and New Zealand.

3.5 GrainCorp's strategy

GrainCorp's strategy is focussed on improving and developing its origination network, growing its presence to better connect producers of grains, oilseeds and other products to end-market customers and driving operational excellence to ensure a lean cost position. The strategy is designed to improve shareholder value through higher earnings and returns, stronger operating cash flow and growth in dividends.



(a) Strengthen and evolve the core

Managing variability	10-year contract to manage East Coast Australia crop production risk	<p>GrainCorp has managed its exposure to cyclical weather conditions by diversifying its operations into downstream value-adding businesses and by diversifying its international origination footprint.</p> <p>GrainCorp has also executed the 10-year Crop Production Contract with effect from FY20, which will ensure GrainCorp's cash flows are supported during poor ECA harvest periods, enabling continued investment in the GrainCorp network, and longer-term planning, through the cycle.</p> <p>For additional information about the Crop Production Contract, please see Section 3.6(c).</p>
	More flexible rail contracts	<p>GrainCorp's previous rail agreements imposed high fixed take-or-pay costs which negatively impacted cashflow in low volume production years.</p> <p>GrainCorp has entered into new rail contracts, effective in FY20, which provide greater flexibility to GrainCorp's cost base and allow assets to be utilised more efficiently, by scaling operations up and down as required.</p>

Simplifying the operating Model	Integration of grains and oils	Combining the grains and oils businesses to form GrainCorp's integrated operating model, will drive a number of benefits for GrainCorp customers, through shared grains accumulation, storage, freight and logistics in eastern Australia.
	Simplification initiatives	Reducing complexity in the business through a structured program of process redesign and "Lean" deployment.
Maximising our assets	Supply chain integration / asset utilisation	Throughout FY19, GrainCorp integrated its supply chain to streamline decision making processes and utilise assets more effectively, providing customers with an improved and lower cost service offering. GrainCorp continues to develop its ECA grains network of the future, building on previous network investment. The company is also focussed on the growth of import / export services through port terminal assets.
	Numurkah crush expansion and crush margin improvement	Following recent expansion investment, GrainCorp will continue to utilise its integrated origination, accumulation and supply chain capabilities to increase the utilisation of the Numurkah and West Footscray processing facilities and improve crush margins by delivering enhanced product solutions.

(b) Adapt the ECA network to meet grower and end-customer needs

GrainCorp will continue to adapt its network to provide customers with best-in-class solutions and outstanding service.

The key priorities for the ECA network are:

- Grow on-farm engagement and service offering;
- Invest in the ECA grains network of the future to deliver best-in-class services and products to our customers;
- Optimise the end-to-end supply chain;
- Continue to expand import / export infrastructure services; and
- Digital innovation.

(i) Focus on growing on-farm engagement and service offering

As part of the evolving agricultural landscape, GrainCorp is focussed on engagement with growers, expanding on-farm presence and enhancing the breadth of services and solutions.

(ii) ECA grains network of the future

GrainCorp is focussed on adapting the ECA network to improve solutions for customers and producers.

GrainCorp is improving its real-time operational monitoring and decision making to increase the efficiency and safety of GrainCorp's supply chain assets. For example, GrainCorp has invested in developing "internet of things" measuring devices to track and trace volumes and quality through the supply chain network and automating processes to improve efficiency, throughput and data accuracy. This will improve quality monitoring and enable segregation and tracing of grains.

(iii) *Online grains trading is a growing opportunity*

GrainCorp is improving efficiency and customer satisfaction through digital innovation. GrainCorp provides online grains trading between producers and buyers through “CropConnect”. CropConnect improves customer market access by allowing producers access to an integrated online marketplace.

CropConnect has approximately 300 active buyer users and since going live in September 2016, over 3.5 million tonnes have sold through the CropConnect cash marketplace.

(c) **Targeted international market expansion**

GrainCorp continues to expand its international presence by investing in new markets in the Black Sea, India, Asia, North America and Europe.

(i) *Origination*

Canada	GrainCorp is expanding its international supply chain capability through a joint venture with Japanese agricultural co-operative Zen-Noh-Grain Corporation, GrainsConnect Canada. The JV enables a multi-origin service offering to customers in Asia, the Middle East and North Africa and includes four state-of-the-art facilities with 134-car rail loops. GrainsConnect Canada has recently formed a JV with Parrish & Heimbecker to build a new port terminal at the Port of Vancouver, Fraser Grain Terminal, which is expected to complete in CY2020.
Black Sea	GrainCorp’s expansion into the Ukraine has been driven by the desire of end-market customers to source more grain and oilseed inputs to manage the global growth in protein consumption. GrainCorp is targeting 1Mtpa in this market.
Organics	The Black Sea and other regions are important sources for organic grains. By having direct participation in the organics markets, GrainCorp is able to ensure the integrity of the supply chain from the farmer to the organic feed manufacturer.

(ii) *End-market customers with importation requirements*

Europe	GrainCorp has an established sales and marketing capability in Europe, connecting producers with end-market customers. A key focus is on sustainable non-genetically modified canola, organic grains and proteins.
North America	A presence in North America allows GrainCorp to connect its organic grains and oilseed origination with the fastest growing end market consumers of organics.
India	In 2019, an Indian sales and marketing office presence was established to participate on this fast-growing market. GrainCorp’s presence in India will assist in increasing participation in the trade of chickpeas and other pulses. India is a significant destination market for Australian pulses.
Asia	GrainCorp is focussed on growing its relationships with local end-market customers and helping them to meet the growing demand for animal feed ingredients. Over the past five years over 80% of Australian grains and oilseed exports were delivered to Asia.

(d) **Expand feeds business and capabilities**

GrainCorp intends to continue growing its feeds business by providing an integrated customer offering to satisfy market demand.

The combination of GrainCorp's grains and oils segments provides customers with a unique accumulation, storage, freight and logistics network both in Australia and internationally.

The businesses also have several common end-market customers, particularly in intensive feedlot and animal feeds sectors, creating the opportunity to integrate the service offering to these customers.

(e) **Customer innovation**

GrainCorp intends to maintain a strong focus on customer innovation and continue to adapt its services and solutions to fulfil customer needs.

(i) *Digital innovation*

GrainCorp continues to build its digital customer offering through platforms such as "CropConnect", a mobile-optimised website that enables participants to manage their warehoused grain in real time, and networks such as the "internet of things" described in Section 3.5(b)(ii) above.

(ii) *Product innovation in grains and oils*

GrainCorp works closely with its customers to develop new and innovative products, including in the Foods (e.g. spreads, dairy blends) and Feed sectors.

3.6 GrainCorp's capital structure after the Demerger

(a) **Capital structure**

GrainCorp's pro forma balance sheet as at 30 September 2019 includes core debt²⁷ of \$82 million and net debt of \$416 million. The actual core debt and net debt balances upon implementation of the Demerger will be subject to variances in actual cash flows in GrainCorp between 30 September 2019 and the Demerger Implementation Date, including seasonal fluctuations in working capital, capital expenditure and transaction costs. GrainCorp intends to target maintaining minimal core debt. GrainCorp will retain a minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger to provide additional balance sheet resources and financing flexibility. There are no escrow or similar restrictions on the disposal by GrainCorp of any or all of the Retained UMG Shareholding. In determining whether to retain or dispose of any or all of the Retained UMG Shareholding after implementation of the Demerger, GrainCorp will have regard to, among other things, the capital requirements of the GrainCorp Post-Demerger Group and the market value of the Retained UMG Shareholding at the relevant time.

²⁷ Core debt for GrainCorp is calculated based on net debt less commodity inventory.

Following the Demerger, GrainCorp intends to continue to maintain a conservative capital structure and investment discipline with the priorities outlined below.

Mandatory	1	Service debt obligations	<ul style="list-style-type: none"> Targeting an investment grade capital structure with minimal core debt Debt financing primarily for seasonal commodity inventory and working capital Term loan bank covenants: interest cover ratio, gearing ratio, net tangible assets test
	2	Stay-in-business capital investment in our network and assets	<ul style="list-style-type: none"> Stay-in-business capital investment deployed strategically as network and processing assets continue to adapt to our customers' needs Average stay-in-business capital investment of A\$35 – A\$45 million p.a.
	3	Pay dividends to GrainCorp Shareholders	<ul style="list-style-type: none"> Targeting a dividend payout ratio of 50% – 70% of NPAT
Discretionary	4	Capital investment in growth projects	<ul style="list-style-type: none"> Disciplined approach to capital investment with strict return hurdles
	5	Return capital to GrainCorp Shareholders	<ul style="list-style-type: none"> If excess capital is available (including because growth opportunities do not meet return requirements) shareholder returns will be evaluated

(b) Dividend policy

GrainCorp's dividend policy will be determined by the GrainCorp Board at its discretion and may change over time.

The GrainCorp Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. As a result, GrainCorp expects to distribute between 50% and 70% of underlying NPAT to GrainCorp Shareholders.

GrainCorp intends to frank its dividends to the extent practicable. Whether any given dividend can be franked will depend on GrainCorp's franking account balance which will depend on the amount of Australian income tax paid by GrainCorp. Immediately after implementation of the Demerger, GrainCorp's franking account balance is expected to be approximately \$14.9 million.

(c) Crop Production Contract

Over the past eight years, GrainCorp has managed its exposure to cyclical weather conditions by diversifying its operations into downstream value-adding businesses and by diversifying its international origination footprint.

As GrainCorp announced to the ASX on 7 June 2019, GrainCorp has also entered into a 10-year crop production derivative (**Crop Production Contract**) with effect from FY20, which will help smooth GrainCorp's cash flow allowing for longer term capital allocation and business planning through the cycle.

The counterparty to the Crop Production Contract is White Rock Insurance (SAC) Ltd, a subsidiary of Aon plc that offers clients a diverse suite of risk management solutions. During the term, a fixed payment of \$15 per tonne (**Production Payment**) will be made for each tonne of actual ECA winter crop production in any given year which is:

- Below an agreed lower production threshold of 15.3 million tonnes: GrainCorp receives the Production Payment, subject to an annual maximum of \$80 million;
- Above an agreed upper production threshold of 19.3 million tonnes: GrainCorp pays the Production Payment, subject to an annual maximum of \$70 million; and
- In all cases, subject to an aggregate net limit of Production Payments to either GrainCorp or the Crop Production Contract counterparty of \$270 million over the 10-year term.

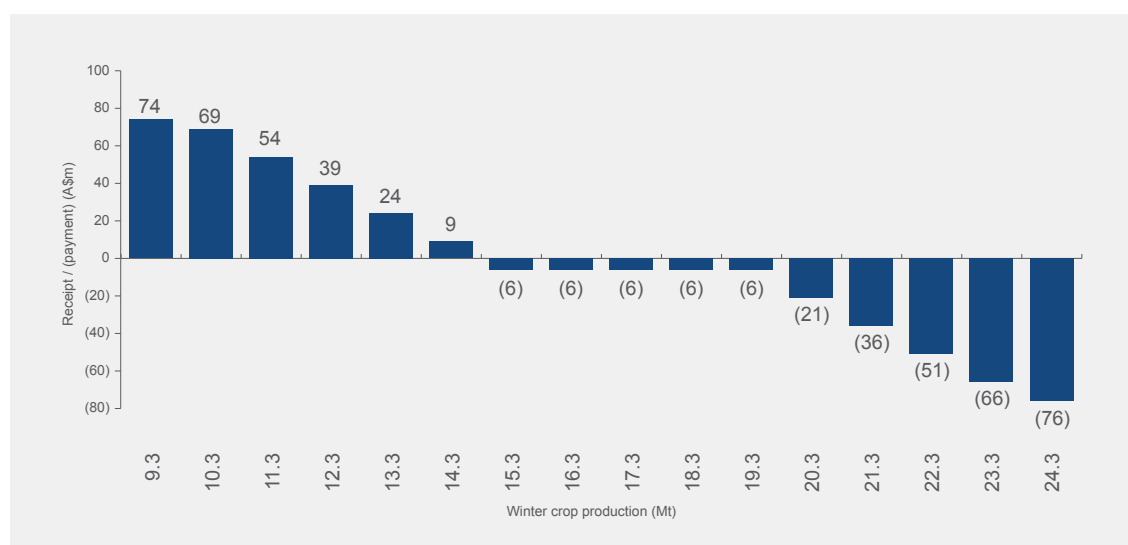
Excluding the Production Payments, the total pre-tax annual cost of the Crop Production Contract to GrainCorp is expected to be less than AUD\$10 million (including associated financing costs).

The Crop Production Contract is not subject to a right of termination in the event of a change of control of GrainCorp.

Refer to section 3.13(e) for details of the pro forma financial impact of the Crop Production Contract

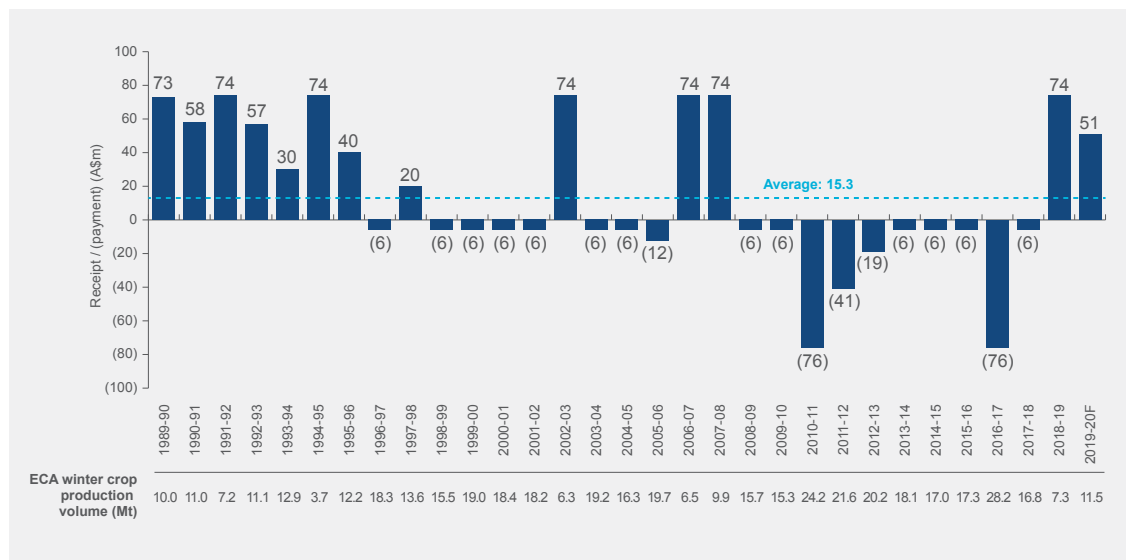
The chart below shows the theoretical payments / receipts under the Crop Production Contract at various levels of winter crop production.

Illustrative GrainCorp receipt / (payments)



The chart below shows what GrainCorp would have paid / received historically, had the Crop Production Contract been in place (including the annual fixed payment of ~\$6m).

Illustrative pro forma historical contract payments



3.7 GrainCorp Board and senior management team

(a) GrainCorp Board

If the Demerger is implemented, the GrainCorp Board is expected to comprise four non-executive GrainCorp Directors and Mr Robert Spurway, the Managing Director and Chief Executive Officer of GrainCorp. Information about these non-executive GrainCorp Directors and the Managing Director and Chief Executive Officer of GrainCorp is set out below.

As at the date of this Demerger Scheme Booklet, each non-executive GrainCorp Director identified in the table below is a GrainCorp Director. Ms Kathy Grigg, who was appointed to the GrainCorp Board on 11 December 2019 to fill a casual vacancy, will stand for re-election at the Annual General Meeting (which will be held on Wednesday, 19 February 2020) in accordance with GrainCorp's Constitution and the ASX Listing Rules. If she is not re-elected by GrainCorp Shareholders at the Annual General Meeting, she will not be a GrainCorp Director on implementation of the Demerger.

As at the date of this Demerger Scheme Booklet, Ms Rebecca Dee-Bradbury and Mr Peter Housden are non-executive GrainCorp Directors. However, as GrainCorp announced to the ASX on 11 December 2019, they have advised the GrainCorp Board that they will retire as GrainCorp Directors with effect from the closure of the Annual General Meeting and, accordingly, will not be GrainCorp Directors on implementation of the Demerger.

As described in Section 3.10(b) below, Mr Spurway has entered into an executive services agreement with GrainCorp, under which his employment as Managing Director and Chief Executive Officer of GrainCorp is subject to, and conditional on, the Demerger becoming Effective (which is expected to occur on Monday, 23 March 2020). If the Demerger becomes Effective, Mr Spurway's employment as Chief Executive Officer and Managing Director will commence, and Mr Spurway will be appointed as a GrainCorp Director, on the Effective Date. As described in Section 3.10(b) below, if the Demerger has not become Effective by 30 June 2020, unless GrainCorp and Mr Spurway otherwise agree after negotiating in good faith, either GrainCorp or Mr Spurway may terminate the conditional executive services agreement.

Name	Profile
Peter Richards <i>Non-executive Chairman</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Peter Richards will be the Chairman of the GrainCorp Board. • Mr Richards joined the GrainCorp Board in November 2015. He is currently a member of the Audit Committee and the Safety, Health and Environment and Governance Committee. • Mr Richards is also currently Chairman of EMECO Holdings (a director since 2010), and was appointed Chairman of Cirralto in January 2018, having served as Non-executive Director since December 2017. He was reappointed Chairman of Elmore (formerly IndiOre) in September 2018, having served as a Non-executive Director since 2010. • Mr Richards has over 40 years' business experience with global companies, having worked in Australia, the UK and the US. He was formerly the Managing Director of Norfolk Group in 2013 and Managing Director and Chief Executive Officer of Dyno Nobel from 2005 to 2008, having held various senior positions in the company both in Australia and the United States since 1990. He was previously a Director of Baralaba Coal Company until his resignation in September 2017.
Robert Spurway <i>Managing Director and Chief Executive Officer</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Robert Spurway will be Managing Director and Chief Executive Officer of GrainCorp. • Mr Spurway was previously Chief Operating Officer, Global Operations for Fonterra Co-operative Group. Prior to this, Mr Spurway held operational roles with Fonterra including GM South Island Operations and Acting Director Operations & Logistics. • Mr Spurway held CEO positions in Australia between 2008 and 2011, initially as MD & CEO of Mrs Crocket's Kitchen, a salad and vegetable supplier, to prepare the business for sale, and then as CEO of Salad Fresh, a supplier of prepared salads. • Over the previous 13 years, Mr Spurway held senior operational roles with Mrs Crocket's Kitchen and Goodman Fielder in Queensland, South Australia and the Northern Territory, and Northland Dairy Company (now Fonterra) in New Zealand. • Mr Spurway has recently held the roles of Chairman of Kotahi Ltd, Deputy Chairman of Sociedad Procesadora de Leche del Sur S.A., (Prolesur) Chile and Director of DFE Pharma GmbH & Co. • Mr Spurway: holds a Bachelor of Engineering (Chemical and Materials) from the University of Auckland; is a Graduate of the INSEAD AVIRA Executive programme; and is a Graduate Member of the Institute of Directors in New Zealand.
Daniel J Mangelsdorf <i>Non-executive GrainCorp Director and Chair, Safety, Health and Environment Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Daniel Mangelsdorf will be a Non-executive GrainCorp Director and Chair of the Safety, Health and Environment Committee. • Daniel Mangelsdorf has served as an independent, non-executive GrainCorp Director since February 2009, having first been appointed as a major shareholder representative director in 2005. He is currently Chairman of the Business Risk Committee and a member of the Audit Committee. • Mr Mangelsdorf owns and operates farming interests in NSW and is an experienced public company director with agricultural, supply

Name	Profile
	chain, international trade and risk management expertise. He is currently the Non-executive Chairman of Warakirri Agricultural Trusts, and a Non-executive Director of Warakirri Asset Management Pty Ltd (since 2017) and Warakirri Holdings Pty Ltd (since 2017).
Donald McGauchie AO <i>Non-executive GrainCorp Director and Chair, Nominations and Remuneration Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Mr Donald McGauchie will be a Non-executive GrainCorp Director and Chair of the Nominations and Remuneration Committee. • Donald McGauchie re-joined the GrainCorp Board in December 2009, having previously served during the period from October 2000 to July 2003. He is currently a member of the People Remuneration and Nominations Committee. • Mr McGauchie has farming interests and extensive experience acting as chairman and director on public company boards. He is currently the Chairman of Nufarm (since 2003) and Australian Agricultural Company (since 2010). • Mr McGauchie was previously a Director of James Hardie plc until his retirement in August 2016.
Kathy Grigg <i>Non-executive GrainCorp Director and Chair, Audit and Risk Committee</i>	<ul style="list-style-type: none"> • If the Demerger is implemented, Ms Kathy Grigg will be a Non-executive GrainCorp Director and Chair of the Audit and Risk Committee (subject to Ms Grigg's re-election as a GrainCorp Director at the Annual General Meeting, as described above). • Ms Grigg has an extensive background in finance and operational management, including as Finance Director of the Australian Wool Research and Promotion Corporation and leadership roles in agriculture sector organisations. • Ms Grigg is currently a Director of Suncorp Portfolio Services, a Director of Navy Health (retiring at the end of February 2020), a Council member and Deputy Chancellor of Deakin University, Chair of the Audit and Risk Committee of the Department of Treasury and Finance Victoria and a member of the Audit Committee of the ACCC. • Ms Grigg's previous directorships include Chair of CoINVEST, Deputy Chair of the Grape and Wine Research and Development Corporation, Director and Chair of the Audit Committee of Southern Health, Director and Chair of the Audit and Risk Committee of Australian Pork and Chair of PorkScan. • Ms Grigg is a Fellow of CPA Australia and the Australian Institute of Company Directors.

(b) GrainCorp Board Skills, Experience and Attributes

The GrainCorp Board aims to be a board of directors which has, at all times, the appropriate mix of skills, experience, expertise and diversity relevant to the GrainCorp Business and the GrainCorp Board's duties and responsibilities.

The GrainCorp Board skills matrix below sets out the mix of skills, experience and expertise the GrainCorp Board currently has and is looking to achieve in its membership. Its composition reflects the area particularly relevant to GrainCorp's strategy, as well as other areas of general relevance to the GrainCorp Business.

Strategy and Business Acumen Experience in developing and implementing successful business strategies, applying business acumen and judgement to grow shareholder value.	Agribusiness / Supply Chain Experience in and understanding of the economic drivers, markets, and challenges of agricultural businesses and related supply chain management.
Consumer Goods and Manufacturing Experience and understanding of the economic drivers, challenges, and operations of food processing and manufacturing industries.	Financial, Risk and Compliance Management Senior leadership experience in management and financial accounting, corporate finance, tax, trading and operational risk, compliance and internal controls.
Safety, Health and Environment Experience in overseeing effective management of safety, health and environmental compliance and risk management systems.	Board and Governance Experience Experience as a non-executive director with a strong commitment to good governance and knowledge of compliance and regulatory requirements for listed entities.
Talent and Diversity Management Experience in organisational talent identification and management, corporate culture, employee engagement, leadership development, succession, and remuneration.	Executive Leadership Extensive experience in senior leadership roles, including listed board positions.
Diversity and Inclusion Ability to contribute to the diversity and inclusion agenda of an organisation to effect change.	International Operations Experience as a director or manager of multi-geographic organisations, including exposure to a range of political, cultural, regulatory and business environments.

The GrainCorp Board also strives for gender diversity and relevant geographic experience within these skill sets and aims to ensure that the GrainCorp Board, as a whole, is able to demonstrate a blend of capabilities.

The GrainCorp Board believes that its current and planned membership will include GrainCorp Directors who collectively provide the desired skills and experience to equip the GrainCorp Board to fulfil its role effectively and to provide effective governance and oversight of the GrainCorp Business strategy and operations.

(c) GrainCorp's senior management

If the Demerger is implemented, the senior management team of GrainCorp will comprise four employees in addition to the Managing Director and CEO. GrainCorp will continue to have a highly experienced senior management team with extensive domestic and international experience. Information about the members of the senior management team is set out below.

Name	Profile
Robert Spurway <i>Managing Director and Chief Executive Officer</i>	<ul style="list-style-type: none"> See Section 3.7(a) above
Alistair Bell	<ul style="list-style-type: none"> Alistair Bell was appointed as GrainCorp Group CFO in November 2010. Mr Bell leads the international finance, treasury, strategy, M&A,

Name	Profile
Chief Financial Officer	<p>customer experience, corporate & investor relations and risk & compliance teams.</p> <ul style="list-style-type: none"> • He is a director of GrainCorp subsidiary companies and director of GrainsConnect Canada, a 50/50 joint venture between GrainCorp and Japanese agricultural cooperative Zen-Noh Grain Corporation. • Mr Bell was previously a director of Allied Mills, a director of Alzheimer's Australia NSW and a member of its Investment Committee and Chairman of its Audit & Risk Committee, until it was dissolved to form Dementia Australia. • Prior to joining GrainCorp, Mr Bell held various Chief Financial Officer, Chief Operating Officer and strategy positions with public, private equity and multinational companies spanning various industries.
Klaus Pamminger Chief Operating Officer	<ul style="list-style-type: none"> • Klaus Pamminger was appointed Chief Operating Officer in April 2019. Prior to this, he was Group General Manager – Grains, responsible for the Grains Operations and Trading businesses in Australia, Singapore, China, Europe and Canada. He was previously General Manager GrainCorp Marketing. • Mr Pamminger has been a Non-executive Director and Chairman of GrainsConnect Canada from 2015 to 2019. He is a Non-executive Director of Fraser Grain Terminal, a joint venture between GrainsConnect and Parish and Heimbecker, a director of GrainCorp subsidiary companies and a member of the Australian Institute of Company Directors (AICD). • Mr Pamminger joined GrainCorp in 2007 and has 30 years' experience in international agribusiness. Prior to joining GrainCorp, he worked for several companies in Australia and North America. He holds a Bachelor Applied Science Agribusiness (Hons) from the University of Queensland.
Cate Hathaway Chief People and Transformation Officer (CPTO)	<ul style="list-style-type: none"> • Cate Hathaway was appointed Chief People & Transformation Officer in April 2019 and is responsible for transformational change, people, safety, environment and technology. She is also director of GrainCorp subsidiary companies. Ms Hathaway joined GrainCorp in July 2018 as Group General Manager, HR and SHE. • Ms Hathaway has previously held senior executive positions in the banking, building resources and insurance industries, and had responsibility for Australian, Asia Pacific and international operations. She is a graduate member of the Australian Institute of Company Directors (AICD), a fellow of the Australian Human Resources Institute (AHRI), a member of AHRI's Diversity and Inclusion Panel, a member of the Western Sydney University School of Business External Advisory Committee and Director of the Board of the Environmental Defenders Office. Her qualifications include a Bachelor of Commerce (UWS, Property Economics) and an Executive Master of Business Administration (AGSM).
Stephanie Belton Group General Counsel & Company Secretary	<ul style="list-style-type: none"> • Stephanie Belton was appointed Group General Counsel and Company Secretary in February 2019. Ms Belton was most recently General Counsel and Company Secretary of SurfStitch Group, and previously held General Counsel and senior management roles at Helloworld, Qantas Airways, and The Peninsular and Oriental Steam

Name	Profile
	<p>Navigation Company. Prior to Ms Belton's corporate roles, she worked in private practice at Linklaters in London.</p> <ul style="list-style-type: none"> Ms Belton holds a Bachelor of Laws (Hons) from the University of Strathclyde (Glasgow) and a Master of Business Administration from the University of Oxford. Ms Belton is admitted to practice in New South Wales and Scotland.

3.8 GrainCorp's corporate governance

(a) Corporate governance overview

The GrainCorp Board will continue to oversee the management of the GrainCorp Business after the Demerger. Copies of GrainCorp's key policies and practices and the charters for the GrainCorp Board and each of its committees are available at www.graincorp.com.au. Other than as described in this Section 3.8, these policies, practices and charters will not be amended as part of implementation of the Demerger.

If the Demerger is implemented, the GrainCorp Board will continue to monitor the financial position and performance of GrainCorp and oversee the GrainCorp Business after the Demerger. The GrainCorp Board is committed to ensuring that the GrainCorp Business is managed to enhance GrainCorp Shareholder interests and that GrainCorp and GrainCorp Directors, officers and employees operate in an environment of strong corporate governance.

(b) Composition of GrainCorp Board after the Demerger

On implementation of the Demerger, as described in Section 3.7(a) above, the GrainCorp Board is expected to be comprised of five directors, including an independent, non-executive Chair, an executive GrainCorp Director and three non-executive GrainCorp Directors (all of whom are independent). The GrainCorp Board may choose to adjust the number of GrainCorp Board members, depending on future changes in GrainCorp's circumstances and the needs of the GrainCorp Board.

Detailed biographies of the GrainCorp Directors on implementation of the Demerger are provided in Section 3.7(a) above.

The GrainCorp Board has adopted a definition of independence that is based on the ASX Recommendations. The GrainCorp Board considers a GrainCorp Director to be independent where he or she is free of any interest, position, association or relationship that might influence, or might reasonably be perceived to influence, in a material respect, his or her capacity to bring independent judgement to bear on issues before the GrainCorp Board and to act in the best interests of GrainCorp and GrainCorp Shareholders generally. The GrainCorp Board will regularly assess the independence of each GrainCorp Director having regard to information disclosed to the GrainCorp Board.

Mr Robert Spurway is not considered by the GrainCorp Board to be an independent director given his role as Managing Director and Chief Executive Officer of GrainCorp.

The GrainCorp Board considers that:

- (i) each of Ms Kathy Grigg, Mr Daniel Mangelsdorf, and Mr Donald McGauchie are independent non-executive GrainCorp Directors; and

- (ii) Mr Peter Richards is an independent non-executive GrainCorp Director, and will be an independent non-executive Chairman at the time Mr Richards is appointed to that position a part of implementation of the Demerger.

(c) GrainCorp Board committees after the Demerger

The GrainCorp Board may from time to time establish and delegate powers to committees, in accordance with the GrainCorp Constitution, to assist in the discharge of its responsibilities. Upon implementation of the Demerger, the GrainCorp Board will have an Audit and Risk Committee, a Nominations and Remuneration Committee and a Safety, Health and Environment Committee. Other committees may be established by the GrainCorp Board as and when required.

Under the charters of each committee, each committee must consist of a minimum of three members and only non-executive GrainCorp Directors, a majority of whom must be independent, and an independent, non-executive GrainCorp Director as chair who is not Chair of the GrainCorp Board.

The Audit and Risk Committee will comprise:

- Kathy Grigg (Chair);
- Daniel Mangelsdorf;
- Donald McGauchie; and
- Peter Richards.

The Nominations and Remuneration Committee will comprise:

- Donald McGauchie (Chair);
- Kathy Grigg;
- Daniel Mangelsdorf; and
- Peter Richards.

The Safety, Health and Environment Committee will comprise:

- Daniel Mangelsdorf (Chair);
- Kathy Grigg;
- Donald McGauchie; and
- Peter Richards.

Copies of the charters for each of these committees will be available on GrainCorp's website (www.graincorp.com.au).

3.9 GrainCorp Directors' interests and remuneration

(a) Interests in GrainCorp Shares

Refer to Section 7.1 for information regarding the number of GrainCorp Shares held by or on behalf of GrainCorp Directors as at the date of the Demerger Scheme Booklet.

GrainCorp Directors who hold GrainCorp Shares as at the Demerger Scheme Record Date will be entitled to receive UMG Shares under the Demerger on the same terms as all other Eligible GrainCorp Shareholders.

(b) GrainCorp Managing Director and Chief Executive Officer

Refer to Section 3.10(b) for a description of the GrainCorp Managing Director and CEO's remuneration.

(c) Non-executive Director remuneration

The total aggregate amount provided to all non-executive GrainCorp Directors for their services as GrainCorp Directors must not exceed \$1,500,000 in any financial year (unless approved by GrainCorp Shareholders). This amount is intended to provide GrainCorp with flexibility to continue to attract and retain non-executive directors of appropriate skill, expertise and calibre. It is not proposed that the whole of the annual aggregate non-executive GrainCorp Director fee amount will be used in the financial year in which the Demerger is implemented.

After implementation of the Demerger, non-executive GrainCorp Directors will continue to be remunerated with a base fee and additional fees for chairing or sitting on a GrainCorp Board committee. If the Demerger is implemented, the initial annual fee structure (inclusive of superannuation) will be as follows:

Role	Fees payable (in AUD)
Base fee - Chair	\$270,000
Base fee - Member	\$110,000
Audit and Risk Committee – Chair ¹	\$22,000
Nomination and Remuneration Committee - Chair	\$20,000
Safety Health Environment Committee - Chair	\$20,000
Committee Member	\$10,750

¹Following the Demerger, the current GrainCorp Board Audit Committee and Business Risk Committee will be combined into the Audit & Risk Committee comprising the members set out in Section 3.8(c) above). The fees that relate to membership of both committees will be reduced from the current amounts to the amounts set out above, as a result of this change (as members will serve on one, as opposed to two, committees).

(d) Other information

(i) Further amounts that may be payable to directors

In addition to the fees set out in Section 3.9(c) above, GrainCorp Directors may continue to be paid for:

- (A) such additional remuneration as the GrainCorp Board decides is appropriate where a GrainCorp Director performs additional or special duties at the request of the GrainCorp Directors; and
- (B) all travelling and other expenses incurred in attending to GrainCorp affairs, including attending and returning from general meetings of GrainCorp or meetings of the GrainCorp Board or GrainCorp Board committees.

(ii) Directors' indemnity and insurance

GrainCorp has entered into deeds of indemnity, insurance and access with each GrainCorp Director.

3.10 GrainCorp executive remuneration

(a) Senior management arrangements

With effect from implementation of the Demerger, remuneration for senior managers will comprise a fixed and an 'at risk'/variable component and a significant proportion of the remuneration packages for senior managers will be at 'at risk' to ensure alignment with GrainCorp's strategic objectives and GrainCorp Shareholder interests.

Details for each component of the senior manager remuneration framework are outlined below.

(i) *Total Fixed Remuneration (TFR)*

TFR will comprise base salary, superannuation and benefits and is determined with regard to role size and complexity, responsibility, competence and levels that are competitive with remuneration levels for employees in comparable roles in the relevant market.

(ii) *Short term incentive (STI)*

Eligible senior managers will be able to participate in GrainCorp's STI plan to reward contribution to annual business goals and also promote retention and alignment with GrainCorp Shareholders.

The terms of the STI plan will be determined by the GrainCorp Board following the Demerger and it is currently expected that the key terms will include the following.

Term	Details
Eligibility	The GrainCorp Board will determine the employees who are eligible to participate in the STI plan from time to time.
Opportunity	The GrainCorp Board will set individual STI opportunity as a percentage of TFR. The value of any STI award that a participant may become eligible to receive will depend on the assessment of performance against a scorecard of performance measures over a performance period, having regard to the weightings and targets assigned to each performance measure.
Form of award	Part cash and part equity that will be deferred into rights to acquire GrainCorp Shares. Deferred rights will not carry any voting or dividend rights.
Performance period	Performance will be tested over the financial year.
Performance measures	STI performance measures, and the weightings and performance standards assigned to each performance measure, will be set annually by the GrainCorp Board in relation to the Managing Director and CEO, and by the Managing Director and CEO (and approved by the GrainCorp Nominations and Remuneration Committee) in relation to other senior managers. It is anticipated that performance will be assessed against a balanced scorecard comprising financial and non-financial measures and details of these measures will be disclosed in GrainCorp's FY20 remuneration report.
Deferred rights and deferral period	50% of the awarded STI will be deferred. 50% of deferred awards will cease to be restricted after 12 months, and 50% after 24 months.

Term	Details
Malus	The GrainCorp Board in its discretion may determine that some, or all, of an employee's deferred STI should be forfeited for gross misconduct, material misstatement or fraud.
Cessation of employment	Subject to GrainCorp Board discretion, STI awards may: <ul style="list-style-type: none"> A. remain on foot to be paid or granted in full at their normal payment or grant date for cessation of employment due to redundancy, disability, death or retirement; or B. be forfeited for resignation or termination for cause.
Change of control	All deferred STI will vest on a change of control, unless the GrainCorp Board determines otherwise.

(iii) *Long term incentive (LTI)*

GrainCorp intends to continue to operate an LTI plan as a key long-term component of remuneration for senior management and other selected employees following the Demerger. The plan is intended to reward superior long-term performance and encourage retention and alignment with GrainCorp Shareholders.

The terms of the LTI plan will be determined by the GrainCorp Board following the Demerger and it is currently expected that the key terms will include the following:

Term	Details
Eligibility	The GrainCorp Board will determine the employees who are eligible to participate in the LTI plan from time to time.
Instrument	Performance rights, each being a right to acquire a GrainCorp Share for nil consideration, upon specified performance criteria being satisfied over the relevant performance period. Performance rights will not carry voting or dividend rights.
Opportunity	<p>The GrainCorp Board will determine individual LTI opportunities as a percentage of TFR.</p> <p>Unless otherwise determined by the GrainCorp Board (as described below), the number of performance rights granted to each participant under the FY20 LTI award will be determined by dividing the dollar value of their LTI opportunity by the VWAP of GrainCorp Shares over the 20 consecutive trading day period within the 30 day period commencing immediately after the fourth day after the Effective Date (so as to minimise the effect of any volatility in the share price in period immediately following the Demerger).</p> <p>The GrainCorp Board has delegated authority to the Chairman to determine a different 20 consecutive trading day period within 30 days after the Effective Date in the event of unexpected or unforeseen circumstances.</p>
Performance period	<p>It is intended that the grant of the FY20 LTI award will be deferred until after the Demerger. The performance period for the FY20 LTI award will commence on the Effective Date and end on 30 September 2022.</p> <p>The performance period for future grants under the LTI plan will be determined by the GrainCorp Board at its discretion.</p>

Term	Details										
Performance conditions	<p>Vesting of performance rights under the LTI plan will be subject to the satisfaction of specified performance conditions.</p> <p>It is intended that the performance conditions applicable to the FY20 LTI award will include the following:</p> <p>A. Absolute TSR (50%) defined as the compound annual growth rate of GrainCorp's TSR over the performance period; and</p> <p>B. Return on Capital Employed (50%), defined as earnings before interest and taxes (EBIT) divided by capital employed. Earnings includes interest on commodity inventory funding²⁸. An average of the three financial year ROCE outcomes will be calculated to determine the ROCE over the three-year vesting period.</p> <p>The vesting schedule for both the TSR and the ROCE performance conditions is as follows:</p> <table> <tr> <th>Performance attained</th><th>Percentage of rights to vest</th></tr> <tr> <td>Below the minimum of the target range</td><td>Nil</td></tr> <tr> <td>At minimum of the target range</td><td>50%</td></tr> <tr> <td>Within target range</td><td>Straight line between 50% & 100%</td></tr> <tr> <td>At or above the maximum of the target range</td><td>100%</td></tr> </table> <p>The performance standards applicable to each relevant condition will be determined by the GrainCorp Board following the Demerger and disclosed in GrainCorp's FY20 remuneration report.</p> <p>The GrainCorp Board intends to select performance conditions that are linked to both external market performance and GrainCorp's internal performance and aim to align senior managers' interests with those of GrainCorp Shareholders. Appropriately challenging performance standards will be set that reflect the characteristics of the industry.</p> <p>Performance against performance standards will be disclosed in future remuneration reports.</p>	Performance attained	Percentage of rights to vest	Below the minimum of the target range	Nil	At minimum of the target range	50%	Within target range	Straight line between 50% & 100%	At or above the maximum of the target range	100%
Performance attained	Percentage of rights to vest										
Below the minimum of the target range	Nil										
At minimum of the target range	50%										
Within target range	Straight line between 50% & 100%										
At or above the maximum of the target range	100%										
Vesting	<p>Upon the satisfaction of the performance conditions, the relevant number of performance rights will vest and each participant will receive a GrainCorp Share in respect of each vested performance right.</p> <p>In order to increase participants' equity holdings in GrainCorp, the GrainCorp Board may impose restrictions on dealing in those shares for a specified period following the vesting of the performance rights.</p>										

²⁸ ROCE capital employed is identical to ROIC invested capital, being the sum of GrainCorp's average total borrowings net of cash assets and commodity inventory funding and average total shareholders' equity. ROCE is a non IFRS measure.

Term	Details
Malus	The GrainCorp Board in its discretion may determine that some, or all, of an employee's unvested LTI should be forfeited for gross misconduct, material misstatement or fraud.
Cessation of employment	The treatment of awards on cessation of employment will be at the GrainCorp Board's discretion. LTI awards may: <ul style="list-style-type: none"> A. be forfeited for resignation or termination for cause; or B. be retained in full or on a pro-rata basis based on the proportion of the performance period that the participant was employed by GrainCorp, and be tested and vest subject to the satisfaction of applicable performance conditions at the end of the performance period, for cessation of employment due to redundancy, disability, death or retirement.
Change of control	In the event of a change of control, the GrainCorp Board will determine the treatment of any on foot awards. This may include determining vesting as to the extent to which performance conditions have been satisfied at the time of the change of control without being pro-rated as to time.

(iv) *One Off Awards*

There will be no long-term incentives that may vest in the three years following Demerger. To encourage retention of senior management and ensure alignment with GrainCorp Shareholders during the period following the Demerger, the GrainCorp Board intends to grant a one-off award following the Demerger to selected GrainCorp employees.

The terms and conditions for the one-off award will be determined by the GrainCorp Board following the Demerger and it is currently expected that the key terms will include the following:

Term	Details
Instrument	Performance rights, each being a right to acquire a GrainCorp Share for nil consideration, upon specified performance criteria being satisfied over the relevant performance period. Performance rights will not carry voting or dividend rights.
Opportunity	The GrainCorp Board will determine the value of individual one-off awards. Unless otherwise determined by the GrainCorp Board (as described below), the number of performance rights granted to each participant will be determined by dividing the dollar value of their transitional incentive award by the VWAP of GrainCorp Shares over the 20 consecutive trading day period within the 30 day period commencing immediately after the fourth day after the Effective Date. The GrainCorp Board has delegated authority to the Chairman to determine a different 20 consecutive trading day period within 30 days after the Effective Date in the event of unexpected or unforeseen circumstances.

Term	Details										
Performance period	Performance will be assessed over a performance period commencing on the Effective Date and ending on 30 September 2021.										
Performance conditions	<p>Vesting of performance rights under the one-off award will be subject to the satisfaction of specified performance conditions.</p> <p>The performance conditions applicable to the one-off award will be a combination of:</p> <p>A. Absolute TSR (50%) defined as the compound annual growth rate of GrainCorp's TSR over the performance period; and</p> <p>B. Return on Capital Employed (50%), defined as earnings before interest and taxes (EBIT) divided by capital employed. Earnings includes interest on commodity inventory funding²⁹. An average of the three financial year ROCE outcomes will be calculated to determine the ROCE over the three-year vesting period.</p> <p>The vesting schedule for both the TSR and the ROCE performance conditions is as follows:</p> <table> <tr> <th>Performance attained</th><th>Percentage of rights to vest</th></tr> <tr> <td>Below the minimum of the target range</td><td>Nil</td></tr> <tr> <td>At minimum of the target range</td><td>50%</td></tr> <tr> <td>Within target range</td><td>Straight line between 50% & 100%</td></tr> <tr> <td>At or above the maximum of the target range</td><td>100%</td></tr> </table> <p>The performance standards applicable to each relevant condition will be determined by the GrainCorp Board following the Demerger and disclosed in GrainCorp's FY20 remuneration report.</p> <p>In determining applicable performance conditions, the GrainCorp Board will ensure that participants will be no better off following the Demerger and intends to select performance conditions that remain appropriately challenging in light of the Demerger and aim to align senior managers' interests with those of GrainCorp Shareholders.</p> <p>Performance against performance standards will be disclosed in future remuneration reports.</p>	Performance attained	Percentage of rights to vest	Below the minimum of the target range	Nil	At minimum of the target range	50%	Within target range	Straight line between 50% & 100%	At or above the maximum of the target range	100%
Performance attained	Percentage of rights to vest										
Below the minimum of the target range	Nil										
At minimum of the target range	50%										
Within target range	Straight line between 50% & 100%										
At or above the maximum of the target range	100%										
Vesting	<p>Upon the satisfaction of the performance conditions, the relevant number of performance rights will vest and each participant will receive a GrainCorp Share in respect of each vested performance right.</p> <p>In order to increase participants' equity holdings in GrainCorp, the GrainCorp Board may impose restrictions on dealing in</p>										

²⁹ ROCE capital employed is identical to ROIC invested capital, being the sum of GrainCorp's average total borrowings net of cash assets and commodity inventory funding and average total shareholders' equity. ROCE is a non IFRS measure.

Term	Details
	those shares for a specified period following the vesting of the performance rights.
Malus, cessation of employment and change of control	As per awards under the LTI plan as outlined in Section 3.10(a)(iii).

(b) Material terms of employment of GrainCorp post-Demerger KMP

(i) Table summarising material terms of employment

GrainCorp considers that, on implementation of the Demerger, its “Key Management Personnel” (as that term is defined in the Corporations Act), will be:

- (A) Robert Spurway – Managing Director and Chief Executive Officer;
- (B) Alistair Bell – Chief Financial Officer;
- (C) Cate Hathaway – Chief People and Transformation Officer; and
- (D) Klaus Pamminger – Chief Operating Officer,

(GrainCorp Post-Demerger KMP).

The material terms of the employment of the GrainCorp Post-Demerger KMP, which will become effective on the Effective Date, are summarised in the table below. These terms are described in more detail in Section 3.10(b)(ii).

Term	Detail of term
Term	Employment will continue until such time that it is terminated in accordance with the employment agreement and as outlined below.
Remuneration	<p>TFR</p> <p>Under the terms of their employment, the GrainCorp:</p> <ul style="list-style-type: none"> A. Managing Director and CEO is entitled to a TFR of \$950,000; B. CFO is entitled to a TFR of \$630,200; C. COO is entitled to a TFR of \$700,000; and D. CPTO is entitled to a TFR of \$475,000.
	<p>STI</p> <p>For FY20, they will be entitled:</p> <ul style="list-style-type: none"> A. for the Managing Director and CEO, an STI payment of up to 150% of TFR; B. for the CFO and CPTO, an STI payment of up to 90% of TFR; and C. for the COO, an STI payment of up to 105% of TFR, based on achievement of financial and non-financial performance measures set and assessed by the GrainCorp Board.
	<p>LTI</p> <p>The GrainCorp Managing Director and CEO and CFO will participate in the FY20 LTI grant with opportunities as follows:</p> <ul style="list-style-type: none"> A. for the Managing Director and CEO, 100% of TFR on the terms outlined in Section 3.10(a)(iii); and B. for the CFO, COO and CPTO, 40% of TFR on the terms outlined in section 3.10(a)(iii).

Term	Detail of term
	<p>One-off award</p> <p>The CFO will participate in the one-off award with an opportunity of \$252,080 on the terms outlined in Section 3.10(a)(iv).</p> <p>The COO will participate in the one-off award with an opportunity of \$280,000 on the terms outlined in Section 3.10(a)(iv).</p> <p>The CPTO will participate in the one-off award with an opportunity of \$190,000 on the terms outlined in Section 3.10(a)(iv).</p>
Termination	<p>Under the terms of their employment, the GrainCorp:</p> <p>A. Managing Director and CEO is entitled to six months' notice;</p> <p>B. CFO and CPTO are entitled to three months' notice; and</p> <p>C. COO is entitled to six months' notice.</p>
Post-employment restraint	<p>Managing Director and CEO: 12 months following cessation of employment</p> <p>Other GrainCorp Post-Demerger KMP: CFO and COO - three months following cessation of employment. CPTO – 12 months following cessation of employment.</p>

(ii) *Detailed summaries of material terms of employment of GrainCorp Post-Demerger KMP*

(A) Managing Director and Chief Executive Officer's employment contract

Robert Spurway, following the Demerger, will become the Managing Director and Chief Executive Officer of GrainCorp. The material terms of Mr Spurway's employment agreement, which will become effective on the Effective Date, are summarised below:

Fixed pay: \$950,000 per annum, reviewed annually.

Short term incentive: For the year ending 30 September 2020, Mr Spurway will be eligible for an annual bonus of between 0% and 150% of his fixed pay (with target performance resulting in a bonus of 100% of fixed pay). A portion of this annual bonus will be dependent upon the achievement by GrainCorp of specified financial measures, which may change each year to ensure strategic alignment, but which are expected to include NPAT and EBIT. The remainder of the bonus is assessed against non-financial objectives set by the GrainCorp Board. Mr Spurway will receive one half of any bonus in the form of rights to GrainCorp Shares under the STI plan described in Section 3.10(a)(ii) (DEP) (deferred bonus), 50% vesting after one year and the remaining 50% after two years (see Section 3.10(a)(ii)). If Mr Spurway resigns or otherwise ceases employment for reasons not acceptable to the GrainCorp Board, any rights to GrainCorp Shares he holds at that time will be forfeited. For the year ending 30 September 2020, the amount of the bonus for which Mr Spurway will be eligible will be prorated to reflect the portion of time he served as Managing Director and Chief Executive Officer of GrainCorp.

Long term incentive: Mr Spurway will be offered rights (which will grant rights to receive GrainCorp Shares) under GrainCorp's proposed long term incentive plan (as described in Section 3.10(a)(iii)). The maximum value of the GrainCorp Shares made available under annual grants of the long-term incentive plan will be equivalent to approximately one times one year's fixed pay. Mr Spurway will become entitled to the maximum number of shares if GrainCorp meets the highest performance standard measures under the plan. It is expected that these performance standards will be structured such that the award of 50% of the performance rights will be subject to measures relating to GrainCorp's absolute TSR, with the award of the other 50% subject to performance against long-term targets for GrainCorp's ROCE. It is expected that the performance period will run from April 2020 to September 2022.

Termination of employment: Mr Spurway's employment may be terminated by GrainCorp on six months' notice. GrainCorp may terminate Mr Spurway's employment without notice in the event of serious misconduct. Mr Spurway must provide six months' notice should he wish to terminate his employment. Other than statutory entitlements such as accrued leave, Mr Spurway will not be entitled to any other payments or benefits on termination.

Any payments made to Mr Spurway upon termination of his employment are subject to the provisions of the Corporations Act relating to the payment of termination benefits.

Mr Spurway is subject to a post-employment restraint for a period of 12 months following cessation of his employment.

(B) Senior executive arrangements

GrainCorp has entered into employment agreements with the senior members of GrainCorp's management team set out in Section 3.7(c) including the GrainCorp Post-Demerger KMP. The material terms of those employment agreements, will become effective on the Effective Date, are summarised below:

Fixed pay: Salary packages will reflect the seniority and skills of the employee and be set at levels that are competitive with median remuneration levels for employees in comparable roles in the relevant market. The TFR of GrainCorp Post-Demerger KMP is set out in Section 3.10(b)(i) above.

Short term incentive: Subject to performance hurdles, senior executives will be eligible for an annual bonus of between 0% and 105% of fixed pay (with target performance resulting in a bonus of 60-70% of fixed pay). One half of any bonus in the form of rights to GrainCorp Shares under the STI plan described in Section 3.10(a)(ii) (DEP) (deferred bonus), 50% vesting after one year and the remaining 50% after two years. The performance criteria on which payments will be calculated will be a blend of the achievement by GrainCorp of specified financial measures and other objectives set by the Managing Director and Chief Executive Officer of GrainCorp.

Long term incentive: Senior executives will be offered shares under the proposed GrainCorp long term incentive plan, on similar terms and conditions as those that will apply to the Managing Director and Chief Executive Officer (as described in Section 3.10(a)(iii)). The maximum entitlement will be 40% of fixed pay.

One-off share incentives: Following the Demerger, the GrainCorp Board intends to grant one-off share entitlements in the form of allocations under the proposed GrainCorp deferred equity and long-term incentive plan (as described in Section 3.10(a)(iv)).

The purpose of the one-off share incentives is primarily to encourage key employees to remain with GrainCorp after the Demerger and, secondly, to ensure that they are not disadvantaged as a result of their transfer of employment.

The precise details of the one-off share incentives will be finalised by the GrainCorp Board following the Demerger, but will be broadly structured as follows:

- additional deferred rights granted in order to preserve the existing value of those already awarded under the GrainCorp deferred equity plan; and
- an opportunity to receive GrainCorp Shares under the GrainCorp long term incentive plan. The actual number of GrainCorp Shares, if any, which may be allocated under this plan will depend upon GrainCorp's absolute TSR and ROCE performance. The periods over which performance will be measured will be from the Demerger through until September 2021. Where employment ceases before shares are allocated, entitlements will lapse.

Termination of employment: The employment of senior executives may be terminated by GrainCorp on three to six months' notice. If a senior executive's employment is terminated by reason of redundancy, the maximum payment to which they will be entitled (including any pay in lieu of notice) will be the amount of 12 months of fixed pay. GrainCorp may terminate the employment of senior executives without notice in the event of serious misconduct. Senior executives must provide three to six months' notice should they wish to terminate their employment. Other than statutory entitlements such as accrued leave, senior executives will not be entitled to any other payments or benefits on termination.

Payments made to senior management team members upon termination of employment are subject to the provisions of the Corporations Act relating to the payment of termination benefits.

Senior executives are subject to a post-employment restraint for a period of between three and twelve months following cessation of employment.

3.11 Corporate Sustainability

GrainCorp intends to continue its integrated approach to corporate sustainability. GrainCorp is committed to continuously improving its business practices to minimise adverse social, environmental and economic impacts. GrainCorp's approach to corporate sustainability is

designed to enhance employee engagement and retention, corporate reputation, manage risk and protect its social license to operate.

3.12 Safety, Environment and Sustainability

GrainCorp is committed to complying with the health, safety and environmental laws to which its operations are subject by identifying and managing the environmental, health and safety risks facing the business to ensure safe, effective and efficient performance across its operations.

In mid-2017, GrainCorp launched the Group Safety, Health and Environment Strategy Towards 2020, a framework based on the five pillars of Safety, Environment & Sustainability, Leadership & Culture, Health & Wellbeing and Risk Management. The framework enables certain goals to be prioritised, which can then be broken into individual initiatives and implemented across one or more areas of the GrainCorp Pre-Demerger Group.

Environmental and safety performance by GrainCorp is, and after the Demerger will continue to be, overseen by programmes targeting continuous operational, environmental, health and safety improvement. GrainCorp subscribes to several economic, environmental and social charters which are outlined in GrainCorp's Sustainability Reports and are accessible on GrainCorp's website.

The GrainCorp Board intends to continue the current framework following the Demerger.

In FY19, GrainCorp's safety performance improved markedly on the previous year, a result of the intense focus GrainCorp's people place on critical risk management, injury reduction and process safety management. The importance placed on having a whole-of-business, strategic approach to health and safety management is evidenced by a 37% reduction in GrainCorp's Recordable Injury Frequency Rate over the 12-month period to FY19.

During the year, GrainCorp progressed several initiatives across each of the five pillars of the GrainCorp Pre-Demerger Group framework, as referred to above. This included the installation of solar panels at selected Grains sites in eastern Australia, to support a reduction in GrainCorp Pre-Demerger Group carbon emissions, engineering improvements at the New Zealand Foods business' East Tamaki site in New Zealand, that will save 60,000KL in water each year, and the introduction of a new Human Capital Management System providing a single resource for all employee data, allowing for greater efficiency across our people processes.

3.13 GrainCorp Post-Demerger Pro Forma Financial Information

(a) Overview

This Section 3.13 contains the pro forma historical financial information in relation to GrainCorp following the Demerger (that is, excluding UMG) (**GrainCorp Post-Demerger Pro Forma Historical Financial Information**) comprising the:

- GrainCorp Post-Demerger Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019 set out in Section 3.13(h);
- GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019 set out in Section 3.13(i); and
- GrainCorp Post-Demerger Pro Forma Historical Balance Sheet as at 30 September 2019 set out in Section 3.13(j).

In this Demerger Scheme Booklet, references to the GrainCorp Post-Demerger Pro Forma Historical Financial Information are references to consolidated pro forma historical financial information in relation to the assets and operations comprising the GrainCorp Post-Demerger Group.

The GrainCorp Post-Demerger Pro Forma Historical Financial Information has been reviewed by the Investigating Accountant and the Investigating Accountant has prepared the Investigating Accountant's Report in respect of the GrainCorp Post-Demerger Pro Forma Historical Financial Information. The Investigating Accountant's Report is set out in Attachment B. GrainCorp Shareholders should read the Investigating Accountant's Report, including the comments made by the Investigating Accountant in relation to the scope and limitations of the Investigating Accountant's Report.

This Section 3.13 should be read in conjunction with the risks of an investment in GrainCorp after the Demerger set out in Section 4.4 and the risks relating to the Demerger set out in Section 4.2.

(b) Basis of Preparation

The GrainCorp Post-Demerger Pro Forma Historical Financial Information has been prepared for illustrative purposes to assist GrainCorp Shareholders in understanding the impact of the Demerger upon the financial performance, financial position and cash flows of GrainCorp. By its nature, pro forma historical financial information is illustrative only. Consequently, the GrainCorp Post-Demerger Pro Forma Historical Financial Information does not purport to reflect the actual financial performance, financial position and cash flows for the periods to which the GrainCorp Post-Demerger Pro Forma Historical Financial Information relates, nor does it reflect the actual financial position of GrainCorp (after the Demerger) at the relevant time.

The GrainCorp Post-Demerger Pro Forma Historical Financial Information has been extracted from GrainCorp's historical financial information and adjusted for the effects of the pro forma adjustments described below. The GrainCorp historical financial information has been extracted from GrainCorp's financial statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019. GrainCorp's financial statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019 have been audited by PwC in accordance with AAS. PwC issued unqualified audit opinions on these financial statements. Copies of these audited financial statements can be found at GrainCorp's website (www.graincorp.com.au) or the ASX website (www.asx.com.au).

Unless otherwise stated in this Demerger Scheme Booklet, the GrainCorp Post-Demerger Pro Forma Historical Financial Information has been prepared in accordance with AAS (including Australian Accounting Interpretations) adopted by the AASB, which comply with the recognition and measurement principles of the IFRS and interpretations adopted by the International Accounting Standards Board. The accounting policies used in the preparation of the GrainCorp Post-Demerger Pro Forma Historical Financial Information are consistent with those set out in GrainCorp's Annual Reports, as disclosed to the ASX, for the year ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

The results and cash flows of the entities that comprise the GrainCorp Post-Demerger Group are translated into Australian dollars using the average exchange rates for the relevant period. Assets and liabilities of the entities that comprise the GrainCorp Post-

Demerger Group are translated into Australian dollars at the exchange rate ruling on the relevant balance sheet date.

The GrainCorp Post-Demerger Pro Forma Historical Financial Information is presented in an abbreviated form and does not contain all the disclosures required by AAS in an annual financial report prepared in accordance with the Corporations Act.

The GrainCorp Post-Demerger Pro Forma Historical Cash Flow statements set out in Section 3.13(i) are presented as cash flows after financing costs and tax for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

The GrainCorp Post-Demerger Pro Forma Historical Income Statements and GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements set out in Sections 3.13(h) and 3.13(i) (respectively) include pro forma adjustments to reflect:

- the removal of the income and cashflows for the Australian Bulk Liquid Terminals Business (excluding the Port Kembla Terminal) – refer to Section 3.13(d) for further details;
- the removal of UMG's historical financial results;
- the removal of the historical results of Allied Mills (an equity accounted investment which was sold in FY17) along with associated significant items as disclosed in GrainCorp's 30 September 2016 and 30 September 2017 Annual Reports, which represent restructure costs and gain on sale of assets;
- the removal of other significant items including UMG related significant items which represent impairment of assets (related to businesses that were also adjusted from the results as they have been disposed), loss on disposal of assets and transaction costs which are non-recurring in nature;
- the cash flow impact of the Crop Production Contract, which has a 10-year term with effect from FY20. Refer to Sections 3.6(c) and 3.13(e) for further information on the Crop Production Contract;
- the amended financing arrangements for the GrainCorp Post-Demerger Group that will take effect on implementation of the Demerger, as described in Section 3.13(k);
- the recognition of the Retained UMG Shareholding, representing the amount to be retained by GrainCorp – refer to Section 3.6 for further details; and
- tax adjustments related to pro forma adjustments at the respective effective tax rates of the entity the pro forma adjustment relates to.

The GrainCorp Post-Demerger Pro Forma Historical Balance Sheet set out in Section 3.13(j) has been prepared on the basis that the Demerger was implemented on 30 September 2019 and that the relevant assets and liabilities were transferred to UMG from the GrainCorp Post-Demerger Group at their historical book value on a consolidated basis. Pro forma adjustments have been made in the GrainCorp Post-Demerger Pro Forma Historical Balance Sheet to reflect certain financing arrangements, capital items, transactions costs, retained interest in UMG and the accounting for the Demerger.

The GrainCorp Post-Demerger Pro Forma Historical Balance Sheet set out in Section 3.13(j) does not represent the actual financial position of GrainCorp at the time of the Demerger, but represents an indication of the GrainCorp Post-Demerger Pro Forma

Historical Balance Sheet as at 30 September 2019 in the circumstances set out in this Section 3.13(b).

The capital structure of GrainCorp after the Demerger has been prepared on the basis that Australian Bulk Liquid Terminals Sale (excluding the Port Kembla Terminal) was completed as at 30 September 2019. See Section 3.13(d) for more information.

(c) **Accounting Pronouncement Not Yet Adopted**

The AAS are subject to amendments from time to time, and any such changes may impact the balance sheet or the income statement of GrainCorp after the Demerger. From 1 October 2019, GrainCorp will be impacted by AASB 16 *Leases* (AASB 16) which is effective from 1 October 2019. AASB 16 introduces a single lessee accounting model and will require GrainCorp (after the Demerger), as lessees, to recognise, for all leases with a term of more than 12 months and that are not of assets of low value:

- a right-of-use asset representing its right to use the underlying leased asset; and
- a lease liability representing its obligations to make lease payments.

Information on the undiscounted amount of GrainCorp's operating lease commitments at 30 September 2019 under AASB 117, the current leasing standard, is set out in Section 3.13(m) (on the basis that the Demerger was implemented on 30 September 2019). Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing income statement classification of what is currently predominantly presented as occupancy-related expenses will be split between depreciation (of right-of-use asset) and interest expense (associated with the lease liability).

GrainCorp have adopted AASB 16 using the modified retrospective approach as of 1 October 2019. The cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 October 2019, with no restatement of comparative information.

GrainCorp have completed an assessment of the expected impact of AASB 16 as at 30 September 2020. The estimated impact of the adoption of AASB 16 on the balance sheet as at 1 October 2019 is an increase in assets (right-of-use asset) of \$155 million and an increase in liabilities (lease liability) of \$210 million. The net difference between these balances will be recognised as an adjustment to retained earnings.

EBITDA will increase as the operating expense is replaced by interest expense and depreciation in the income statement under AASB 16 which is recorded below EBITDA. The estimated impact on the income statement for the year ending 30 September 2020 is an increase in depreciation and amortisation expense of \$28 million, an increase in interest expense of \$6 million and a decrease in occupancy expenses of approximately \$30 million.

As part of the Bulk Liquid Terminals Sale (refer section 3.13(d)), GrainCorp has entered into a long-term storage agreement (LTSA) with ANZ Terminals. The LTSA is assessed as a sale and leaseback transaction under AASB 16. The estimated impact on the balance sheet as at 1 October 2019 would be an additional right-of-use asset of \$37.5 million and lease liability of \$96.8 million which has been reflected as a pro-forma adjustment to the balance sheet – see Section 3.13(j) for further details.

There is no impact on cashflows resulting from the adoption of AASB 16 (except for the lease arrangement arising from the Bulk Liquid Terminals Sale).

These estimates may be materially different to the actual impact for the year ending 30 September 2020 due to changes in the composition of the GrainCorp Post-Demerger Group's lease portfolio, the application of practical expedients and recognition exemptions, and changes to material judgement areas.

The impact of the adoption of AASB 16 (except for the lease arrangement arising from the Bulk Liquid Terminals Sale) has not been included in the GrainCorp Post-Demerger Pro Forma Historical Financial Information as this information has been prepared under AAS117, which is the standard that was applicable during the historical periods presented.

(d) Bulk Liquid Terminals Sale

The sale of the Australian Bulk Liquid Terminals Business completed on 31 December 2019. The Bulk Liquid Terminals Sale excluded the Port Kembla Terminal to address potential competition concerns the ACCC had about port-side bulk liquid storage in NSW. The total sale price of \$333 million includes a deferred component of \$19 million ('deferred consideration'), the payment of which is subject to the satisfaction of certain milestones relating to the extension and commencement of lease agreements on certain terminal sites in future periods.

The GrainCorp Post-Demerger Pro Forma Historical Financial Information in Section 3.13 has been prepared on the basis that the Bulk Liquid Terminals Sale, excluding the Port Kembla Terminal and the deferred consideration, completed in accordance with its terms before 30 September 2019, with total sale proceeds of \$314 million. The deferred consideration of \$19 million has not been recognised in the pro-forma balance sheet as this amount is contingent on the satisfaction of the milestones referred to in the previous paragraph.

The contribution of the Australian Bulk Liquid Terminals Business to the GrainCorp Post-Demerger Historical Income Statement (excluding the Port Kembla Terminal) (Section 3.13(h)) and Cash Flow Statements (Section 3.13(i)) has been removed from all historical periods presented in this Demerger Scheme Booklet. In addition, the GrainCorp Post-Demerger Pro Forma Historical Balance Sheet (Section 3.13(j)) excludes the balance sheet for the Australian Bulk Liquid Terminals Business (except for the Port Kembla Terminal, which is retained by GrainCorp and includes the impact of the lease arrangement entered into between GrainCorp and ANZ Terminals as part of the transaction.

The gain on sale of the Australian Bulk Liquid Terminals Business as recorded within retained earnings in the GrainCorp Post-Demerger Pro Forma Historical Balance Sheet is \$93 million (pre-tax), calculated assuming the sale completed on 30 September 2019. The gain on sale is reduced by the impact of the lease arrangement referred to above – see Section 3.13(j) for further details.

(e) Crop Production Contract

As described in Section 3.6(c), GrainCorp has entered into the 10-year Crop Production Contract, effective from FY20, to manage the risk associated with the volatility of eastern Australian winter grain production. The contract will help smooth GrainCorp's cash flow, allowing for longer term capital allocation and business planning through the cycle.

The Crop Production Contract will be accounted for as a derivative under AASB 9 *Financial Instruments*. Details of the accounting treatment and approach to determining fair value are included in GrainCorp's 30 September 2019 Annual Report.

The cashflows from the Crop Production Contract in any given period will include:

- the cash payment for the annual premium and associated broker and collateral fees; and
- any production cash receipts to GrainCorp when annual grain production drops below a certain threshold, or production payments made by GrainCorp when production exceeds an upper threshold, in accordance with the contract terms as detailed in Section 3.6.

The cash flow impact of the Crop Production Contract has been included as a pro-forma adjustment in the GrainCorp Post-Demerger Pro Forma Historical Financial Information included in this Section 3.13.

Non-cash gains and / or losses in the underlying fair value of the instrument are not included as a pro-forma adjustment in the GrainCorp Post-Demerger Pro Forma Historical Income Statements due to the subjectivity in determining valuation assumptions in the historical period but these movements in the fair value will be recorded in the income statement from FY20.

The pro-forma adjustments in relation to the Crop Production Contract do not reflect the impact of any different approach to risk management and associated decision making in GrainCorp that may have occurred had the contract been in place in the relevant historical periods presented.

(f) **Explanation of Certain Non-IFRS Financial Measures**

GrainCorp uses certain measures to manage and report on its businesses that are not recognised under AAS or IFRS. These measures are collectively referred to in this Section 3.13 as non-IFRS financial measures pursuant to Regulatory Guide 230 *Disclosing non-IFRS financial information* published by ASIC. Management uses these non-IFRS financial measures to evaluate the performance and profitability of the overall business, and they are commonly used performance measures by the investor community. The principal non-IFRS financial measures referred to in this Section 3.13 are as follows:

- **EBIT** is the earnings of continuing operations before recognising:
 - o interest revenue, interest expense or financing costs; and
 - o income taxation expense.
- **EBITDA** is earnings of continuing operations before recognising:
 - o depreciation and amortisation expense;
 - o interest revenue, interest expense or financing costs; and
 - o income taxation expense.
- **NPAT** is net profit after tax.
- **Net capital expenditure** represents capital expenditure less proceeds from the sale of property, plant and equipment and intangibles.
- **Net debt** represents total loans and borrowings and bank overdrafts, less cash and cash equivalents.
- **Net free cash flows** is net operating cash flows after net capital expenditure, finance costs and taxation.

- **Working capital** represents inventories, inventory funding facilities, trade and other receivables and trade and other payables.
- **Significant items** being those items not in the ordinary course of business, non-recurring and material in nature and amount.

(g) Segment Reporting

GrainCorp segments are organised and managed separately according to the nature of the products and services provided. The GrainCorp Board and GrainCorp's senior management team (the chief operating decision makers) monitor the operating results of the segments separately for the purpose of making decisions about resource allocation and performance assessment.

The Corporate segment for GrainCorp Post-Demerger reflects the historical corporate costs incurred by GrainCorp as an international consolidated group, including UMG. As described in Section 1.3(b), the Demerger will enable and accelerate several business process simplification and cost reduction initiatives across GrainCorp after the Demerger. These initiatives are expected to deliver an annualised cost reduction of approximately \$20 million, primarily in corporate costs within 12 months after implementation of the Demerger. The impact of these cost reductions has not been reflected as a pro-forma adjustment in the GrainCorp Post-Demerger Pro Forma Historical Financial Information. In executing these costs savings, GrainCorp has incurred \$4.5 million of one-off redundancy payments in FY19, which are adjusted as a part of the pro forma adjustment for one-off transaction costs.

(i) GrainCorp Post-Demerger Pro Forma Historical Segment Information

Set out below is the GrainCorp Post-Demerger Pro Forma Historical Segment Information for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

Pro forma Historical Revenue

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Agribusiness	2,647.4	3,109.8	2,784.5	3,189.6
Processing	538.9	530.1	499.0	542.0
Corporate	-	-	-	-
Inter segment revenue	(212.0)	(192.9)	(214.1)	(215.4)
Pro forma historical revenue	2,974.3	3,447.0	3,069.4	3,516.2

Pro forma Historical EBITDA excl significant items

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Agribusiness	55.6	138.2	78.0	(49.4)
Processing	26.4	22.8	17.6	17.5
Corporate	(30.0)	(33.8)	(32.4)	(30.6)
Pro forma historical EBITDA	52.0	127.2	63.2	(62.5)

(h) GrainCorp Post-Demerger Pro Forma Historical Income Statements

(i) GrainCorp Post-Demerger Pro Forma Historical Income Statements

Set out below is the GrainCorp Post-Demerger Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Revenue	2,974.3	3,447.0	3,069.4	3,516.2
Other income / (loss)	59.0	80.2	39.4	(77.2)
Expenses	(2,975.4)	(3,324.1)	(3,039.7)	(3,575.6)
EBITDA, excluding significant items	52.0	127.2	63.2	(62.5)
Depreciation and amortisation	(80.5)	(87.1)	(88.5)	(86.3)
EBIT, excluding significant items	(28.5)	40.1	(25.3)	(148.8)
Significant items	(28.6)	(13.0)	-	-
EBIT	(57.1)	27.1	(25.3)	(148.8)
Net financing costs	(11.5)	(11.0)	(12.0)	(14.5)
Income tax expenses	21.1	(5.7)	10.5	48.8
Pro forma historical NPAT	(47.5)	10.4	(26.8)	(114.5)

Notes:

GrainCorp to UMG Transitional Services Agreement: as described in Section 5.10(d)(i), GrainCorp and UMG have entered into the GrainCorp to UMG Transitional Services Agreement, under which GrainCorp will provide certain information technology, payroll, finance, office space and other corporate services to UMG for a transitional period after implementation of the Demerger, pending migration of those services. This generates an income stream for GrainCorp after the Demerger and will be a cost for UMG, totalling approximately \$1 million. No pro-forma adjustment for this arrangement is reflected given the transitional nature of this arrangement. The ongoing requirement for these costs has been captured within standalone corporate costs (pro forma adjustment 4) detailed in Section 3.13(h)(iii).

The GrainCorp Post-Demerger Pro Forma Historical Income Statements and GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements include an estimate of insurance costs based on estimates from insurance brokers. When the policy is renewed in the first half of calendar year 2020 there is a risk that the estimated cost of insurance for GrainCorp may be higher than anticipated due to market factors or adverse claims performance. GrainCorp continues to review its insurance cost estimates, considering both policy structure and scope. Insurance costs may be \$2M to \$4M higher than the amounts included in the GrainCorp Post-Demerger Pro Forma Historical Income Statements and GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements.

(ii) *Reconciliation of GrainCorp Historical EBIT to GrainCorp Post-Demerger Pro Forma Historical EBIT excluding significant items*

Set out below is the reconciliation of the GrainCorp Historical EBIT to the GrainCorp Post-Demerger Pro Forma Historical EBIT for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Historical EBIT	80.5	223.7	115.8	(116.5)
Significant items	32.5	20.0	-	42.6
Historical EBIT, excluding significant items	113.0	243.7	115.8	(73.9)
(1) UMG historical EBIT, excluding significant items	(107.7)	(108.4)	(114.8)	(123.2)
(2) Liquid terminals historical EBIT	(16.2)	(17.7)	(18.8)	(24.2)
(3) Crop production contract net receipt / (payment)	(5.9)	(75.9)	(5.9)	74.1
(4) Estimated additional standalone corporate costs	(1.6)	(1.6)	(1.6)	(1.6)
(5) Allied Mills historical EBIT	(10.1)	-	-	-
Pro forma historical EBIT, excluding significant items	(28.5)	40.1	(25.3)	(148.8)

An explanation of the adjustments made to EBIT are detailed below in Section 3.13(h)(iii).

(iii) *Reconciliation of GrainCorp Historical Net profit to GrainCorp Post-Demerger Pro Forma Historical Net profit*

Set out below is the reconciliation of the GrainCorp Historical Net Profit after Tax to the GrainCorp Post-Demerger Pro Forma Historical Net Profit after Tax for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Historical net profit after tax	30.9	125.2	70.5	(113.0)
(1) UMG historical EBIT, excluding significant items	(107.7)	(108.4)	(114.8)	(123.2)
(2) Liquid terminals historical EBIT	(16.2)	(17.7)	(18.8)	(24.2)
(3) Crop production contract net receipt / (payment)	(5.9)	(75.9)	(5.9)	74.1
(4) Estimated additional standalone corporate costs	(1.6)	(1.6)	(1.6)	(1.6)
(5) Allied Mills historical EBIT	(10.1)	-	-	-
(6) Remove UMG significant items	3.1	15.8	-	-
(7) Remove Allied Mills significant items	0.8	(8.8)	-	-
(8) Remove Transaction costs (within significant items)	-	-	-	42.6
(9) Net financing costs adjustment	26.7	28.0	30.2	35.6
(10) Net income tax expenses adjustment	32.5	53.8	13.6	(4.8)
Pro forma historical NPAT	(47.5)	10.4	(26.8)	(114.5)

Notes:

Historical net profit represents the historical NPAT of GrainCorp prior to the Demerger occurring, extracted from the GrainCorp Financial Statements for the respective periods. An explanation of the adjustments made to net profit after tax are detailed below:

- Represents the removal of the historical EBIT excluding significant items of UMG prior to the Demerger occurring, as extracted from the GrainCorp Financial Statements for the respective periods.
- Represents the removal of the historical EBIT of the Australian Bulk Liquid Terminals Business (excluding the Port Kembla Terminal), as derived from the information directly related to the Australian Bulk Liquid Terminals Business from the accounting records of GrainCorp.
- Represents the cash flow impact of the Crop Production Contract based on actual ABARES crop production for the historical period. Refer to Section 3.13(e) for further details. This adjustment does not include the fair value impact of the Crop Production Contract, which will be recorded in the income statement from FY20 – refer to Section 3.13(h) for further details.
- Represents estimated additional standalone corporate costs, including increased insurance premiums and employee related costs.
- Historical results for GrainCorp included income related to a 60% equity-accounted investment in Allied Mills, an Australian supplier of milled edible

flour, which was disposed of in FY17. As the Allied Mills investment was disposed of, these results have been removed from the GrainCorp Post-Demerger Pro Forma Historical Income Statements for all periods presented.

- (6) Represents the removal of significant items related to UMG which includes impairment charges and loss on sale of assets as defined in GrainCorp's annual report.
 - (7) Represents the removal of significant items related to Allied Mills (as detailed above in adjustment 5 which was disposed in FY17) which includes restructure costs and gain on sale of assets as defined in GrainCorp's annual report.
 - (8) Represents the removal of one-off costs incurred in preparing for and implementing the Demerger, including advisor fees, financing and debt structuring, employee and technology costs.
 - (9) Represents the removal of finance costs associated with existing banking facilities and replacing with the estimated finance costs that would have been incurred in each period, had the post-Demerger capital structure been in place from the start of FY16, as described in Section 3.13(k).
 - (10) The tax impact attributable to all adjustments has been calculated using an effective tax rate based on the applicable tax rate of each entity.
- (iv) *Management Discussion on Pro Forma Historical Performance*

Commentary on GrainCorp's pro forma historical financial performance for the period 1 October 2015 to 30 September 2019 is outlined below. Additional commentary is provided in GrainCorp's annual reports and half year reports, which are available on GrainCorp's website at www.graincorp.com.au or the ASX website (www.asx.com.au).

FY16

GrainCorp delivered EBITDA of \$52.0 million in FY16. Total throughput volumes (grain + non-grain) were below historical averages, with export volumes down due to large global grain inventories and low ocean freight rates which adversely impacted the competitiveness of Australian grain. Oilseed crush margins were down due to tighter canola supply. Increased costs were incurred due to the protracted commissioning of GrainCorp's Foods plant at West Footscray, Victoria.

ABARES' 2015/16 ECA winter crop production estimate was 17.3mmt, within the upper and lower production thresholds set in the Crop Production Contract (CPC). Therefore, as shown in the GrainCorp Post-Demerger Pro Forma Historical Financial Information above, aside from the annual cost of the CPC premium and associated fees, there would have been no Production Payments required by either of the CPC counterparties in FY16 should the CPC have been in place.

FY17

GrainCorp delivered EBITDA of \$127.2 million in FY17, up ~\$75m on the previous year, with the Grains business benefiting from a well above average east coast Australian (ECA) crop and a substantial increase in grain receivals and exports.

As shown in the GrainCorp Post-Demerger Pro Forma Historical Income Statements above, based on ABARES' 2016/17 ECA winter crop production

estimate of 28.2mmt, the CPC would have resulted in a maximum cash payment (from GrainCorp to the counterparty) of \$70 million in the year, plus the annual premium and associated fees, had the CPC been in place.

Supply chain disruption due to flooding and industrial action impacted EBITDA by ~\$20 million. GrainCorp benefited from improved crush margins, however this was offset by a compression in Foods margins due to a prolonged process in capturing efficiency benefits at West Footscray from the edible Oils optimisation project.

FY18

GrainCorp delivered EBITDA of \$63.2 million in FY18, with the Grains business adversely impacted by a significantly smaller ECA crop, which led to lower grain receivables and exports. The result included a ~\$20 million negative impact from supply chain issues.

ABARES' 2017/18 ECA winter crop production estimate was 16.8mmt, within the upper and lower production thresholds set in the CPC. Therefore, as shown in the GrainCorp Post-Demerger Pro Forma Historical Financial Information above, aside from the annual cost of the CPC premium and associated fees, there would have been no Production Payments required by either of the CPC parties in FY18, had the CPC been in place.

GrainCorp's expansion into Canada through the GrainsConnect Canada joint venture progressed well and a trading office was established in Ukraine. The foods business delivered an improved performance with delivery of operational efficiencies; however, oilseed crush margins were adversely impacted by the ECA drought.

FY19

GrainCorp's result was an EBITDA loss of (\$62.5) million in FY19, with the Grains business adversely impacted by one of the worst droughts on record in ECA, compounded by significant disruptions in global grain markets. ECA grain production was significantly below average, with GrainCorp's receivables and exports down substantially on the previous year. Oilseed crush margins were also adversely impacted by the ECA drought, with lower canola supply and higher canola costs.

As shown in the GrainCorp Post-Demerger Pro Forma Historical Financial Information above, based on ABARES' 2018/19 ECA winter crop production estimate of 7.3mmt, the CPC would have resulted in a maximum cash receipt (payment from the counterparty to GrainCorp) of \$80 million in the year, minus the annual premium and associated fees, had the CPC been in place.

In addition to the adverse impact of drought conditions, GrainCorp's financial performance was impacted by several significant items and abnormal factors, which were disclosed in the Group Financial Analysis and Commentary section of GrainCorp's 2019 Annual Report. The ~\$42 million of significant items (as shown in the table below) have been included as pro-forma adjustments in the GrainCorp Post-Demerger Pro Forma Historical Income Statements presented in Section 3.13(h). However, the abnormal factors (which, as disclosed in GrainCorp's 2019 Annual Report, are unaudited) are not adjusted in the GrainCorp Post-Demerger Pro Forma Historical Income Statements.

FY19 Significant Items	Impact to EBITDA (\$m)	Adjusted for in GrainCorp Post Demerger Pro-Forma Historical Income Statements
Transaction costs:	(35)	(35)
<ul style="list-style-type: none"> i. Costs associated with the Portfolio Review including: <ul style="list-style-type: none"> a. Proposed Demerger; and b. Sale of the Australian Bulk Liquid Terminals Business. ii. Costs associated with the response to the non-binding indicative offer from Long Term Asset Partners' (LTAP) to acquire 100% of the shares in GrainCorp. 		
Restructuring costs:	(7)	(7)
One-off costs associated with preparation for the Demerger.		
Significant Items as shown in note 1.5 of the 30 September 2019 Annual Report and adjusted in the GrainCorp Post-Demerger Pro-Forma Historical Income Statements included in Section 3.13(h)	(42)	(42)

The abnormal factors that are not adjusted for in the GrainCorp Post-Demerger Pro Forma Historical Income Statements comprised of:

- (1) Disruption to international grain trade flows impacting Australian wheat and barley markets (\$65m). The Grains business experienced a \$65 million negative impact to EBITDA in FY19 as a result of the disruption to international grain trade flows which adversely affected Australian feed wheat and barley prices, and, in turn adversely affected our positions.
- (2) Impact of drought on the utilisation of GrainCorp's 'take-or-pay' rail contracts (\$15m). The Grains business experienced a \$15 million negative impact to EBITDA in FY19 as a result of the under-utilisation of its 'take-or-pay' rail contracts, caused by minimal grain production and export volumes in eastern Australia. These contracts expired at the end of FY19.
- (3) Other costs – one-off costs (\$5m) associated with:
 - (a) simplifying Grains' operating model (\$3m); and
 - (b) devaluation of an investment (\$2m).

(i) GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements

(i) GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements

Set out below is the GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
EBITDA, excluding significant items	52.0	127.2	63.2	(62.5)
Change in working capital & other	(75.8)	(28.0)	18.1	(37.7)
Net operating cash flows (before capital expenditure, financing costs and tax)	(23.8)	99.2	81.3	(100.2)
Capital expenditure (net of proceeds)	(127.5)	(158.1)	(86.5)	(44.2)
Net operating cash flows (before financing costs and tax)	(151.3)	(58.9)	(5.2)	(144.4)
Net interest paid (1)	(11.5)	(11.0)	(12.0)	(14.5)
Tax paid (2)	-	-	-	-
Pro forma net free cash flows	(162.8)	(69.9)	(17.2)	(158.9)

Notes:

- (1) Pro forma interest paid represents the estimated finance costs associated with the new debt financing arrangement that would have been paid had the post-Demerger capital structure been in place. See Section 3.13(k).
- (2) Pro-forma tax paid in FY16 to FY19 is nil given the losses before tax in FY16, FY18 and FY19. No tax would be paid in FY17 due to brought forward tax losses which could be utilised to offset any taxable income in that year.

(ii) Reconciliation of GrainCorp Historical Net Free Cash Flows to GrainCorp Post-Demerger Pro Forma Net Free Cash Flows

Set out below is the reconciliation of the GrainCorp Historical Net Free Cash Flows to the GrainCorp Post-Demerger Pro Forma Net Free Cash Flows for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.

A\$m	Year ended 30-Sep-16	Year ended 30-Sep-17	Year ended 30-Sep-18	Year ended 30-Sep-19
Historical net free cash flows	(120.2)	73.5	58.6	(231.1)
(1) UMG historical net operating cash flows	(46.1)	(70.5)	(49.3)	(45.9)
(2) Liquid terminals historical net operating cash flows (before financing and tax)	(6.8)	(20.0)	(23.9)	(23.8)
(3) Crop production contract net receipt / (payment)	(5.9)	(75.9)	(5.9)	74.1
(4) Standalone costs	(1.6)	(1.6)	(1.6)	(1.6)
(5) Transaction costs	-	-	-	42.6
(6) Net interest paid	17.1	20.1	21.0	26.3
(7) Tax paid	0.7	4.5	(16.1)	0.5
Pro forma net free cash flows	(162.8)	(69.9)	(17.2)	(158.9)

Notes:

Historical net free cash flows (before net capital expenditure, finance costs and tax) represents the historical net free cash flows (before net capital expenditure, finance costs and tax) of GrainCorp prior to the Demerger as derived from the financial information from the accounting records of GrainCorp. An explanation of the reconciling items between the Historical Net operational cashflow and Pro-forma net free cashflow are detailed below:

- (1) Represents the removal of the historical net free cash flows (before net capital expenditure, finance costs and tax) of UMG prior to the Demerger occurring, as derived from the financial information directly related to UMG in the accounting records of GrainCorp.
- (2) Represents the removal of the historical net free cash flows of the Australian Bulk Liquid Terminals Business (excluding the Port Kembla Terminal), as derived from the financial information directly related to the Australian Bulk Liquid Terminals Business in the accounting records of GrainCorp.
- (3) The pro-forma cashflows include the impact of the Crop Production Contract. Refer to Sections 3.6(c) and 3.13(e) for further details and a description of the impact on cash flows of GrainCorp after the Demerger.
- (4) Represents estimated additional standalone corporate costs, including increased insurance premiums and employee related costs.
- (5) Represents removal of the transaction costs incurred in FY19, non-recurring in nature and captured within significant items of the FY19 Annual report.
- (6) Represents the removal of finance costs associated with existing banking facilities and replacing with the estimated finance costs that would have been incurred in each period, had the post-Demerger capital structure been in place from the start of FY16, as described in Section 3.6.
- (7) The tax impact attributable to the pro-forma adjustments that are subject to tax has been calculated using an effective tax rate based on the applicable tax rate of each entity.

(iii) *Management Discussion on Pro Forma Historical Cash Flows*

GrainCorp historical net free cash flows reflect operating earnings (EBITDA) and movements in working capital:

- (A) FY16 working capital reflects higher domestic receivable balances, and one-off restructuring costs (classified as significant items in the FY16 Annual report);
- (B) FY17 and FY18 working capital movements relate to timing of inventory shipments and associated receivables and payables; and
- (C) FY19 working capital requirements increased to support the East Coast of Australia grain imports program, and due to timing of receivables for export customers.

Capital expenditure in the pro-forma net free cashflows for GrainCorp in FY16 to FY19 includes \$314 million of spend on strategic projects including major plant expansions in Oils, ECA network upgrades and investments in overseas growth projects in Grains. Major capital works were largely completed in FY19.

GrainCorp's capital expenditure in the historical period was funded by a combination of proceeds from the sale of investments (Allied Mills \$106 million in FY17, GrainCorp Malt Germany \$30 million in FY17, recorded in significant items) and operating free cashflows (including UMG and the Australian Bulk Liquid Terminals Business). The pro-forma net free cashflows for GrainCorp shown in Section 3.13(i)(i) do not include proceeds from the sale of investments.

Capital expenditure in FY16 to FY19 included:

- (A) \$84 million for site upgrades delivered through the future network program;
- (B) \$43 million for investment in the GrainsConnect Canada joint venture. Refer to Section 3.4 (a)(ii) for further details;
- (C) \$47 million to complete the investment in the food manufacturing and oil refining facility in West Footscray, Victoria (majority of construction occurred in FY15);
- (D) \$58 million to expand capacity at the oilseed crushing and refining facility in Numurkah, Victoria; and
- (E) Total stay-in-business capex spend of \$151 million in FY16 to FY19.

Interest paid reflects interest on term debt and inventory funding facilities under the new financing structure. Refer Section 3.6.

(j) GrainCorp Post-Demerger Pro Forma Historical Balance Sheet

(i) Reconciliation of GrainCorp Historical Balance Sheet at 30 September 2019 to GrainCorp Post-Demerger Pro Forma Balance Sheet

Set out below is the GrainCorp Pro Forma Historical Balance Sheet as at 30 September 2019.

\$ in millions	Statutory Reported	UMG	BLT	Transacti on Costs	Financing Structure	Retained stake in UMG	Other	Pro Forma
		(1)	(2)	(3)	(4)	(5)	(6)	
Cash and cash equivalents	265.3	(181.4)	314.0	(22.2)	(336.5)	-	-	39.2
Trade and other receivables	624.0	(249.8)	0.2	(0.5)	-	-	-	373.9
Intercompany receivables	-	(58.4)	-	-	58.4	-	-	-
Inventories	738.4	(347.9)	-	-	-	-	-	390.5
Derivative financial instruments	59.0	(4.6)	-	-	-	-	-	54.4
Assets classified as held for sale	209.9	-	(195.2)	-	-	-	-	14.7
Current tax assets	11.1	(19.7)	6.2	-	-	-	7.2	4.8
Total current assets	1,907.7	(861.8)	125.2	(22.7)	(278.1)	-	7.2	877.5
Trade and other receivables	0.6	(0.4)	-	-	-	-	-	0.2
Investment in United Malt Group	-	-	-	-	-	85.5	-	85.5
Investments accounted for using the equity method	40.5	-	-	-	-	-	-	40.5
Investments in other entities at cost	3.5	-	-	-	-	-	-	3.5
Deferred tax assets	112.4	(6.1)	(29.2)	6.9	-	-	7.6	91.6
Property, plant and equipment	1,335.2	(609.8)	13.8	-	-	-	(11.2)	728.0
Right of use asset	-	-	37.5	-	-	-	-	37.5
Intangible assets	471.0	(353.7)	1.2	-	-	-	-	118.5
Derivative financial instruments	1.9	(0.3)	-	-	-	-	-	1.6
Retirement benefit asset	2.8	(2.8)	-	-	-	-	-	-
Total non-current assets	1,967.9	(973.1)	23.3	6.9	-	85.5	(3.6)	1,106.9
Total assets	3,875.6	(1,834.9)	148.5	(15.8)	(278.1)	85.5	3.6	1,984.4

(i) *Reconciliation of GrainCorp Historical Balance Sheet at 30 September 2019 to GrainCorp Post-Demerger Pro Forma Balance Sheet (continued)*

\$ in millions	Statutory Reported	UMG	BLT	Transaction Costs	Financing Structure	Retained stake in UMG	Other	Pro Forma
		(1)	(2)	(3)	(4)	(5)	(6)	
Trade and other payables	(363.7)	169.1	(0.3)	-	-	-	-	(194.9)
Intercompany payables	-	756.5	-	-	(756.5)	-	-	-
Deferred revenue	(11.0)	-	-	-	-	-	-	(11.0)
Borrowings	(633.2)	142.8	-	-	169.4	-	0.2	(320.8)
Derivative financial instruments	(63.9)	10.2	-	0.2	-	-	-	(53.5)
Current lease liabilities	-	-	(11.0)	-	-	-	-	(11.0)
Current tax liabilities	(0.1)	7.3	-	-	-	-	(7.2)	-
Non current liabilities classified as held for sale	(12.2)	-	12.2	-	-	-	-	-
Provisions	(48.4)	8.9	-	-	-	-	-	(39.5)
Total current liabilities	(1,132.5)	1,094.8	0.9	0.2	(587.1)	-	(7.0)	(630.7)
Trade and other payables	(32.8)	19.7	-	-	-	-	-	(13.1)
Borrowings	(768.3)	259.9	-	-	365.7	-	8.3	(134.4)
Derivative financial instruments	(5.3)	5.3	-	-	-	-	-	-
Lease liabilities	-	-	(85.8)	-	-	-	-	(85.8)
Deferred tax liabilities	(72.7)	80.3	-	-	-	-	(7.6)	-
Provisions	(10.5)	2.5	-	-	-	-	-	(8.0)
Retirement benefit obligations	(17.2)	17.2	-	-	-	-	-	-
Total non-current liabilities	(906.8)	384.9	(85.8)	-	365.7	-	0.7	(241.3)
Total liabilities	(2,039.3)	1,479.7	(84.9)	0.2	(221.4)	-	(6.3)	(872.0)
Net assets	1,836.3	(355.2)	63.6	(15.6)	(499.5)	85.5	(2.7)	1,112.4
Total equity	1,836.3	(355.2)	63.6	(15.6)	(499.5)	85.5	(2.7)	1,112.4

Notes:

Detailed below is an explanation of the pro forma adjustments made to the GrainCorp statutory reported balance sheet as at 30 September 2019:

- (1) Represents the removal of UMG assets and liabilities as at 30 September 2019 prior to the Demerger occurring, as extracted from the information directly related to UMG in the accounting records of GrainCorp.
- (2) As described in Section 3.13(d), the balance sheet has been prepared on the basis that the Bulk Liquid Terminals Sale (excluding the Port Kembla Terminal) and the deferred consideration described in Section 3.13(d), completed in accordance with its terms pre 30 September 2019. This adjustment represents:
 - (A) Recognition of cash proceeds from sale of \$314m. This excludes 1) \$18m for the Port Kembla Terminal which is retained within the GrainCorp Post-Demerger Group and 2) Deferred consideration of \$19m which is contingent on extension of lease agreements on certain terminal sites in future periods.

- (B) Removal of Australian Bulk Liquid Terminals Business net assets (excluding Port Kembla) as at 30 September 2019 which was included as 'Asset classified as held for sale' in the Statutory Reported results.
- (C) Reallocation of Port Kembla Terminal related net assets into the respective balance sheet line items.
- (D) As part of the Bulk Liquid Terminals Sale, GrainCorp will enter into a long-term storage agreement (LTSA) with ANZ Terminals. The LTSA is assessed as a sale and leaseback transaction under AASB 16. The estimated impact on the balance sheet would be an additional right of use asset of \$37.5 million and lease liability of \$96.8 million which has been included as a pro forma adjustment. Further a deferred tax asset of \$17.8m on the basis that a tax deduction is claimed on lease payments versus accounting depreciation and interest on ROU asset and lease liability respectively.
- (E) As a result of the above, a gain of \$63.6m (\$92.9m pre-tax) has been included within retained earnings of GrainCorp as if the sale has occurred on 30 September 2019.

The deferred consideration of \$19m has not been recognised as it is contingent on the extension and commencement of lease agreements on certain terminal sites in future periods.

- (3) Represents one-off transaction costs (including the deferred tax impact) in preparing for and implementing the Demerger, including advisor fees, financing and debt structuring, employee and technology costs.
- (4) Represents the change in financing structure to the new financing arrangements that will take effect on implementation of the Demerger, described in Section 3.13(k), inclusive of the settlement of intercompany balances between UMG and GrainCorp as part of the Demerger.
- (5) UMG Retained Stake: Represents a 10% investment in UMG by GrainCorp. The amount has been recorded at 10% of the pro forma net assets of UMG for the purposes of the GrainCorp Post-Demerger Pro Forma Historical Balance Sheet but will be accounted for as investment held at fair value. The fair value will be determined by reference to the UMG Shares as traded on the ASX. No deferred tax impact has been reflected in the pro-forma adjustment for the UMG Retained Stake. Deferred tax will be recognised on the difference between the fair value of the investment and the tax base.
- (6) Other includes:
 - (A) A land transfer for a parcel at Pinkenba, Brisbane, which is jointly used by UMG and GrainCorp, with access to the GrainCorp storage sheds and UMG malting plant. The transfer includes a finance lease with the Department of Natural Resources Mining and Energy (DNRME). A lease agreement between UMG and GrainCorp will continue to provide GrainCorp with access to the storage sheds.
 - (B) Adjustments to deferred tax balances which will no longer be considered recoverable (in accordance with AASB 112 Income Taxes) upon implementation of the demerger.

The GrainCorp Post-Demerger Pro Forma Historical Balance Sheet as at 30 September 2019 set out in Section 3.13(j) does not include the impact of entering into the Crop

Production Contract. Refer to the 30 September 2019 Annual Report for details of the accounting treatment of the Crop Production Contract.

(ii) *One-off Transaction Costs*

The total one-off transaction costs of the Demerger for GrainCorp are estimated to be approximately \$43 million (pre-tax). Approximately \$20 million of one-off transaction costs were incurred in the period to 30 September 2019³⁰. One-off transaction costs include costs incurred in preparing for and implementing the Demerger, including advisor fees, legal costs, financing and debt structuring, employee and technology costs.

(k) **GrainCorp Post-Demerger Facilities & Cash Overview**

(i) *GrainCorp Post-Demerger Debt Facilities*

GrainCorp has historically been funded through internally generated cash flows as well as external debt facilities held by GrainCorp.

Following the Demerger, funding for GrainCorp will be sourced through a combination of internally generated cashflows and bank loan facilities in aggregate totalling A\$1,520 million (**GrainCorp Post-Demerger Facilities**).

As at the date of this Demerger Scheme Booklet, the GrainCorp Post-Demerger Facilities have been executed by all parties and are committed and currently available to GrainCorp. The lenders have provided their consent to the Demerger and, subject to various conditions being satisfied (which are summarised in the table below), the GrainCorp Post-Demerger Facilities will be automatically amended upon the implementation of the Demerger so that they remain available to GrainCorp after the Demerger (**the Demerger Amendment**).

The GrainCorp Post-Demerger Facilities contain market standard terms and conditions for facilities of this nature. The key terms of the GrainCorp Post-Demerger Facilities are as follows:³¹

Facility Type	Term Facilities	Working Capital Facilities/Trade Finance	Inventory Facilities
Currency	Australian dollars	Australian dollars (with optional currencies as required).	Australian dollars
Commitments	\$150m (reduced from \$400m following completion of the Bulk Liquid Terminals Sale)	\$390m, including \$150m for the standby letter of credit to support the Crop Production Contract ("CPC")	\$980m
Maturity	March 2023, which may be extended on an evergreen basis	November 2020 Facility renewed each year to align with the seasonal requirements of the business.	November 2020 Facility renewed each year to align with the seasonal

³⁰ Transaction costs of \$42 million were included within Significant Items in the 30 September 2019 Annual Report, of which \$20 million relate to the Demerger.

³¹ Certain of these loan facilities are in foreign currencies – this Australian dollar figure is based on the relevant exchange rates as at 8 November 2019.

Facility Type	Term Facilities	Working Capital Facilities/Trade Finance	Inventory Facilities
			requirements of the business.
Applicable interest rates	With respect to a loan denominated in: <ul style="list-style-type: none"> Australian dollars, BBSY; or any foreign currency, the base rate customary for loans in that currency, plus any applicable margin. 		Cost of funding plus any applicable margin
Security	Unsecured		Commodity inventory is pledged as security
Conditions precedent to Demerger Amendment	<ul style="list-style-type: none"> The Demerger being implemented by 8 May 2020 (or such later date as agreed by the lenders). Delivery of a verification certificate attaching customary documentation and certifications relating to the Demerger. 		
Representations, Undertakings, Financial Covenants and Events of Default	The GrainCorp Post-Demerger Facilities currently contain representations, undertakings, financial covenants and events of default that are consistent with the position GrainCorp has negotiated on previous facilities.		
Covenants	The GrainCorp Post-Demerger Facilities contain financial undertakings which are customary for a facility of this nature and include net tangible assets, gearing ratio and an interest cover ratio.		
Review Event	The GrainCorp Post-Demerger Facilities contain customary review events for facilities of this nature including GrainCorp being delisted or suspended from trading for a period of 10 Business Days or a change of control of GrainCorp occurring.		
Guarantors	<p>The GrainCorp Post-Demerger Facilities are currently guaranteed by certain members of the GrainCorp Pre-Demerger Group.</p> <p>Following the Demerger, the GrainCorp Post-Demerger Facilities will be guaranteed by certain members of the GrainCorp Post-Demerger Group.</p>		

(ii) *Cash and Debt overview*

The table below sets out GrainCorp's net financial indebtedness as at 30 September 2019, after giving pro forma effect to the Demerger:

A\$m	Historical Pro-Forma
Cash and cash equivalents	39
Debt:	
Term	134
Working Capital	-
Inventory Facilities	321
Net financial indebtedness	416
Commodity Inventory	(334)
Core Debt³²	82

GrainCorp's pro forma balance sheet as at 30 September 2019 includes core debt of \$82 million and net debt of \$416 million. The actual core debt and net debt balances upon implementation of the Demerger will be subject to variances in actual cash flows in GrainCorp between 30 September 2019 and the Demerger Implementation Date, including seasonal fluctuations in working capital, capital expenditure and transaction costs.

GrainCorp intends to target maintaining minimal core debt. As described in Section 3.6(a), GrainCorp will retain a minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger to provide additional balance sheet resources and financing flexibility. There are no escrow or similar restrictions on the disposal by GrainCorp of any or all of the Retained UMG Shareholding. In determining whether to retain or dispose of any or all of the Retained UMG Shareholding after implementation of the Demerger, GrainCorp will have regard to, among other things, the capital requirements of the GrainCorp Post-Demerger Group and the market value of the Retained UMG Shareholding at the relevant time.

(I) **Taxation**

GrainCorp Pre-Demerger Group entities are charged and pay taxation as part of the GrainCorp Pre-Demerger Group taxation arrangement, which includes the UMG Group's Australian entities. At the time of the Demerger, the UMG Group's Australian entities will exit GrainCorp's Australian tax consolidated group for the purposes of Australian income tax.

The effective tax rate of GrainCorp will vary from what it would have been prior to Demerger.

³² Core debt is net debt less commodity inventory.

(m) Lease Commitments

Set out below are the GrainCorp Post-Demerger Group's operating lease commitments contracted for at the reporting date, but not recognised as liabilities on the balance sheet as at 30 September 2019.

Lease Commitments Summary:

A\$m	As at 30-sept-19
Within 1 year	16.3
1 to 5 years	51.6
More than 5 years	131.4
Total operating lease commitments	199.3

The lease commitments outlined in the table above are determined in accordance with AASB 117 being the lease standard that was applicable at 30 September 2019. A new lease standard is applicable to GrainCorp from 1 October 2019. This is discussed in Section 3.13(c).

(n) Demerger Accounting

Accounting for demerger transactions is guided by AASB Interpretation 17 *Distributions of Non-cash Assets to Owners*. This interpretation requires that obligations for distributions made by a company to its shareholders should be recognised and measured under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Liabilities for distributions to shareholders are measured at the fair value of the assets to be distributed (the fair value of UMG Shares in this case), which will be determined by reference to the VWAP of UMG Shares as traded on the ASX (whether on a deferred or ordinary settlement basis) over the first five trading days after the Effective Date.

The difference between the fair value of all UMG Shares transferred to GrainCorp Shareholders (or the Sale Agent in respect of Selling Shareholders) by GrainCorp under the Demerger and GrainCorp's investment in UMG will be recognised as profit/loss on Demerger. AASB does not provide guidance as to where a debit to equity should be recorded for the recognition of a distribution liability in the balance sheet of the company making the distribution. The value of the Capital Reduction will be determined by reference to the tax allocation which will be supported by an ATO ruling. Accordingly, the distribution to equity will be allocated to share capital and retained earnings within GrainCorp's equity accounts, in accordance with the allocation between capital and dividend specified in the ATO Class Ruling.

On the Effective Date, GrainCorp will recognise a provision based on the estimated fair value of UMG Shares. This provision will be settled through the transfer of the UMG Shares under the Demerger. At that time the difference between the book value of UMG's net assets transferred and the fair value of UMG Shares will be recognised in the consolidated financial statements of GrainCorp as income to GrainCorp and included in GrainCorp's consolidated income statement for the year ended 30 September 2019 within discontinued operations. For illustrative purposes only, a range of fair values and the implied profit on Demerger amounts are set out in the table below.

These figures are neither a prediction nor a forecast of UMG's share price post Demerger and the UMG Share VWAP over the first five trading days may vary substantially from the range set out in the table below.

	Trading day				
	1	2	3	4	5
UMG's share VWAP over first five days of trading	\$3	\$4	\$5	\$6	\$7
Implied fair value of UMG (AUD \$m)	763	1,017	1,272	1,526	1,780
UMG pro forma net assets (AUD \$m)	855	855	855	855	855
Profit/ (Loss) on demerger (AUD \$m)	(92)	162	417	671	925
Implied fair value of retained 10% stake (AUD \$m)	76	102	127	153	178

(o) Material changes in financial position since most recent balance date

The most recent published financial statements of GrainCorp are the Annual Report and Appendix 4E for the year ended 30 September 2019, which were released to the ASX on 14 November 2019. To the knowledge of the GrainCorp Directors, as at the date of this Demerger Scheme Booklet, the financial position of GrainCorp has not materially changed since 30 September 2019, except as disclosed in this Demerger Scheme Booklet or as otherwise announced to the ASX by GrainCorp.

SECTION 4

Risks relating to the Demerger and an investment in UMG and GrainCorp after the Demerger

4.1 Introduction

If the Demerger is implemented, GrainCorp Shareholders, who previously had an indirect interest in the UMG Business through their shareholding in GrainCorp, will have a direct interest in UMG and, accordingly, will be directly subject to a number of risks affecting UMG, the UMG Business, its operations and its financial condition.

Most of the risks currently faced by GrainCorp will continue to be faced by GrainCorp after the Demerger. GrainCorp Shareholders are already exposed to these risks through their shareholding in GrainCorp. However, other risks arise as a result of GrainCorp becoming a smaller and less diversified business after implementation of the Demerger than it is at the date of this Demerger Scheme Booklet.

GrainCorp Shareholders should carefully consider the risks and uncertainties associated with:

- UMG Shares, the UMG Business and the industry in which UMG operates; and
- GrainCorp Shares and the GrainCorp Business and the industry in which the GrainCorp Post-Demerger Group operates,

together with all of the other information in this Demerger Scheme Booklet before making any decision as to whether or not to vote in favour of the Demerger Resolutions to be considered at the Meetings.

This Section 4 describes the risk factors which may be relevant to your decision whether to vote in favour of the Demerger Scheme and the related Capital Reduction. These risks include those that:

- relate to the Demerger;
- are specific to an investment in UMG; and
- are specific to an investment in GrainCorp after the Demerger.

Sections 4.2, 4.3 and 4.4 below summarise these risks, but do not purport to list every risk that may be associated with the Demerger or an investment in UMG Shares or GrainCorp Shares after the Demerger. The selection of risks described in these Sections has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it occurred. The assessment was based on the knowledge of the GrainCorp Directors as at the date of this Demerger Scheme Booklet, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Sections 4.2, 4.3 and 4.4 below are general in nature only and do not take into account each GrainCorp Shareholder's individual objectives, financial situation, taxation position or particular needs.

4.2 Risks relating to the Demerger

(a) Advantages of the Demerger may not materialise

After the Demerger, GrainCorp and/or UMG may not be able to achieve some or all of the expected potential advantages of the Demerger described in Section 1.3 ("Advantages of the Demerger and reasons to vote in favour of the Demerger"). If that occurs, the business, financial condition and prospects of UMG and/or GrainCorp after the Demerger may be adversely affected.

(b) Uncertainty about the combined market value and trading of UMG Shares and GrainCorp Shares after the Demerger

It is not possible to predict the market value of UMG Shares or GrainCorp Shares after the Demerger. There can be no assurance that UMG Shares will trade at any particular price after the ASX Listing. Following the Demerger, some UMG Shareholders or GrainCorp Shareholders may increase or decrease their holdings in UMG or GrainCorp. There is a risk that the combined market value of UMG and GrainCorp after the Demerger may be less than the market value of GrainCorp before the Demerger.

GrainCorp Shareholders should also note that, if the Demerger does not proceed, there is no assurance that GrainCorp Shares will continue to trade at prices in line with recent levels.

(c) Potential for delays, unexpected costs and other issues in relation to the services provided under the Transitional Services Agreements or otherwise establishing UMG as a standalone, ASX-listed company

As part of the implementation of the Demerger, each of UMG and GrainCorp is replacing corporate office and support services currently provided by the other (including group accounting, treasury, taxation, legal, insurance administration, investor relations and general human resources) with internal capability (existing and or additional) and some outsourced services contracts.

As described in Section 5.10(d), GrainCorp and UMG have entered into the Transitional Services Agreements, under which GrainCorp and UMG will provide certain information technology, payroll, finance, office space and other corporate services to each other for a transitional period after implementation of the Demerger, pending migration of those services.

There is a risk that either GrainCorp's or UMG's performance of these functions will be negatively affected during the transitional period as the relevant systems and processes are implemented. Notwithstanding the provision of services under the Transitional Services Agreements, during the transitional period, either GrainCorp or UMG may incur increased costs to implement the relevant systems and processes and it may take some time to ensure that all required systems and processes are operating fully and efficiently. There is a risk that the establishment of these systems and processes may take longer than expected or may involve greater costs than anticipated.

(d) UMG's historical financial information may not reflect the results of a standalone, ASX-listed company

UMG does not have an operating history as a standalone, ASX-listed company. The UMG Pro Forma Historical Financial Information in Section 2.17 may not reflect the financial condition and performance (including results of operations and cash flows) that UMG would have achieved as a standalone, ASX-listed company during the periods presented or that it will achieve in the future due to the following factors:

- (i) UMG has benefited from GrainCorp's operating diversity, size, reputation and purchasing power and may lose some of these benefits as a standalone, ASX-listed company; and
- (ii) the UMG Business has been operated by GrainCorp as part of its broader corporate organisation and has been supported by GrainCorp's corporate infrastructure, including group accounting, treasury, taxation, legal, insurance administration, investor relations and general human resources. The UMG Pro

Forma Historical Financial Information in Section 2.17 reflects allocations of corporate expenses from GrainCorp for these and similar functions. These allocations may be more or less than the comparable expenses that UMG would have incurred had it operated as a standalone, ASX-listed company during the relevant periods.

(e) Potential inability to obtain third party consents

Certain contracts to which GrainCorp Post-Demerger Group companies and UMG Group companies are party contain provisions enabling the counterparties to terminate the relevant contracts in the event that a change of ownership or control of the relevant GrainCorp Post-Demerger Group company or UMG Group company occurs without the counterparties consent.

There is a risk that implementation of the Demerger will require the consent of one or more counterparties under these contracts and that such consent cannot be obtained, or, if it can be obtained, it may not be obtained on reasonable terms and conditions and/or within a reasonable timeframe. The operation of provisions requiring such consent may have adverse consequences for GrainCorp and/or UMG, such as the loss of contracts or assets, increased costs, and the need to renegotiate such arrangements. GrainCorp and UMG have assessed the need to obtain consent and have begun the process of contacting the relevant third parties.

(f) The Court may not approve the Demerger or its approval may be delayed

As is the case with all schemes of arrangement in Australia, there is a risk that the Court may not approve the Demerger or that the approval of the Court is delayed.

4.3 Risks specific to an investment in UMG

(a) Overview

This Section 4.3 describes a number of risks specific to an investment in UMG following the Demerger. The risks set out in this Section 4.3 may adversely affect the operating or financial performance of UMG, and the investment returns or value of UMG Shares, after the Demerger. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of UMG.

Many of the risks described in this Section 4.3 are risks to which GrainCorp Shareholders are indirectly exposed as at the date of this Demerger Scheme Booklet as a result of their shareholding in GrainCorp, while others arise as a result of UMG becoming a standalone ASX-listed company, independent from GrainCorp following the Demerger.

This Section 4.3 should be read in conjunction with Section 1, which sets out (among other things) the advantages and disadvantages of the Demerger, Section 4.2, which sets out the risks relating to the Demerger, and Section 4.4, which sets out the risks specific to an investment in GrainCorp after the Demerger.

(b) Existing business risks

(i) *UMG is subject to competition risk in each of the markets in which it operates*

UMG operates in a competitive business environment in Australia and internationally. Each of the markets in which UMG operates is characterised by competition on the basis of quality, price and customer service. Consequently, UMG's financial performance, revenues and market share may be adversely affected by the actions of its competitors, such as price discounting, and the effectiveness of UMG's response to such actions.

- (ii) *A decline in beer consumption may have an adverse impact on UMG's financial performance*

UMG primarily supplies to, and services, brewing customers. Beer consumption (both mainstream and craft) may be affected by changing consumer preferences, for example demand for beverage premiumisation and increasing health awareness. A decline in beer consumption has the potential to have a significant effect on UMG's future financial performance. In addition, there is the risk that global brewers become increasingly self-sufficient for malt, which would further impact UMG's financial performance. UMG's focus on the craft brewing and Scottish distilling markets (as described in Section 2.2(a)) may mitigate some of these risks.

- (iii) *A change in the amount of malt used in beer production may have an adverse impact on UMG's financial performance*

UMG primarily supplies to brewing customers. The amount of malt used in beer production varies considerably by brewery, region and style of beer produced. A range of factors may reduce the amount of malt used in beer production, including changing consumer preferences, increased production yields and efficiency and increased substitution of malt with lower cost, unmalted grains or other products (e.g. sugar, corn or rice). UMG's focus on the craft brewing and Scottish distilling markets (as described in Section 2.2(a)) may mitigate some of these risks.

- (iv) *Disruptions to UMG's supply chain may adversely impact its financial performance*

UMG is dependent on the supply of quality barley and malt to meet the expectations of its customers. The supply of barley and malt could be disrupted by many factors, including the failure by UMG to develop and maintain effective supplier relationships, climate events or natural disasters, quality management issues in UMG's supply chain, and transport or shipping delay/issues, which may adversely impact UMG's financial performance. UMG seeks to mitigate this risk by maintaining a diversified network of growers and regions for barley supply.

UMG leases warehouses to store and distribute brewing ingredients. Damage to or destruction of these facilities could result in the loss of significant inventory and impact the ability to fulfil sales orders for customers, which would adversely impact UMG's financial results. UMG seeks to mitigate these risks by implementing and maintaining rigorous occupational health and safety programs.

In certain markets, UMG utilises third parties to distribute its products. Whilst this has been an effective way to expand the distribution of UMG's products, UMG does not have full control over the supply chain of these third parties. As a result, there is a risk that these third parties may provide a lower standard of service than UMG would provide if it distributed its products directly in the relevant markets. UMG seeks to minimise these risks by maintaining long-term relationships with trusted distributors.

All warehouses are subject to audit procedures relating to food safety standards. Food safety risks have been identified and are covered by Statements of Procedure (SOP) or contract. Inventory and stock controls that UMG has in place include procedures such as inventory reconciliation against third-party logistics, stocktakes/cycle counts, site visits, due diligence conducted for new facilities and audit procedures.

- (v) *UMG is vulnerable to increases in barley prices which have the potential to negatively impact its profitability*

UMG has operations that are directly exposed to volatility in barley prices, which has the potential to impact its operations and margins. It is UMG's policy to manage the impact of volatility in barley prices and effectively secure conversion margins by entering into fixed price barley supply agreements shortly after contracting malt sales. UMG's contracts with most customers are structured such that the cost of barley is effectively passed through to those customers. Further, UMG has extensive experience in grain trading, enabling it to purchase barley at optimal prices through the cycle.

- (vi) *UMG is subject to increases in utility prices and access to reliable water supply*

Natural gas is the key input in the malt heating germination process and is a substantial variable utility cost component of UMG's malt processing operations. As such, increases in gas prices may adversely impact UMG's financial performance.

Water and electricity are also key inputs in the malting process. There is a risk that access to high quality reliable water may be impacted by climate variability, catastrophic drought or wide-spread contamination, and access to affordable and reliable electricity may be impacted by a supply/demand imbalance, which may adversely impact UMG's financial performance.

- (vii) *UMG is subject to agricultural risks which have the potential to negatively impact its financial performance*

Barley growing and procurement are subject to a variety of agricultural factors beyond UMG's control, such as disease, pests, rainfall, and extreme weather conditions. To the extent that any of these factors impact the quality and quantity of barley available to UMG for malting, its operations could be adversely affected. UMG seeks to mitigate this risk by maintaining a diversified network of growers and leveraging its strong supplier relationships, allowing it to import barley when necessary.

- (viii) *There is a risk that UMG's information technology systems fail*

UMG relies on its own and third-party information technology infrastructure and systems for its day-to-day operations, including for processing transactions, maintaining its website, product ordering, warehouse management and logistics systems and maintaining other back-office functions. Any failure of, or disruption to, information technology infrastructure or systems could impede the processing of transactions or limit UMG's ability to carry out its operations.

Similarly, the unauthorised disclosure of confidential company, customer, team member or third-party information, or a malicious attack on UMG's infrastructure, could impact UMG's reputation or competitive strength or result in litigation and/or regulatory enforcement.

UMG seeks to mitigate these risks by regularly testing and reviewing its information technology infrastructure and systems, and continually seeking to strengthen data and cyber security.

- (ix) *There is a risk that industrial disputes have adverse reputational, legal or financial impacts on UMG*

A failure to successfully manage industrial relations or ensure proper design, processes, security and culture at plants and warehouses could result in industrial disputes that cause adverse reputational, financial, legal, productivity or morale impacts. UMG seeks to mitigate these risks with a targeted industrial relations strategy. For example, the roll-off profile of enterprise agreements is typically staggered to minimise disruption to UMG's operations.

- (x) *Inability to execute UMG's business strategy may adversely impact its financial performance*

UMG may fail to implement or achieve its strategic objectives due to a range of factors, including management not prioritising delivery of the key pillars of the strategy, changes to the competitive environment that result in a change to the underlying assumptions of the strategy, poor cost management, loss of key management personnel, failure to effectively execute a project, or adverse economic shocks and uncertainty.

A failure by UMG to execute its strategy may result in a failure to maintain or increase operating margins and market share. As part of its strategy, UMG may undertake acquisitions or divestments from time to time, acquire or develop new malting plants or invest capital in new projects or initiatives. While UMG is focussed on maintaining discipline in its capital expenditure, such actions could result in a variability of earnings over time, may give rise to liabilities or may distract management from business as usual operations, which could potentially adversely affect UMG's financial performance.

UMG's results of operations and financial condition could be adversely affected if UMG encounters difficulties in effectively managing the budgeting, forecasting and other process control issues in the pursuit of future growth. To manage this, UMG undertakes a detailed budgeting process to minimise the likelihood of cost overruns on planned projects that further UMG's strategic objectives.

- (xi) *UMG is exposed to movements in foreign exchange rates which may impact its financial performance*

UMG, through its international operations and exports, is exposed to the effect of foreign exchange rate fluctuations. Movements in exchange rates has both transaction and translation consequences which may impact UMG's earnings.

UMG seeks to minimise these risks with hedge instruments for contracts in currencies different to functional currency, as described in Section 2.17(j), however there is a risk that these hedging arrangements do not adequately protect UMG from being adversely impacted by foreign exchange rate fluctuations.

- (xii) *UMG's financial performance may be impacted by changes in taxation treatment / laws*

Changes in taxation laws (or their interpretation) in the US, Canada, Australia, the UK and other countries where UMG has operations could materially affect UMG's financial performance and impact on its ability to obtain the benefit of existing tax losses and claim other beneficial tax attributes. In addition, governments may review and impose additional or higher excise or other taxes on beer or whisky,

which may have an adverse effect on consumer buying patterns and may adversely impact UMG's financial results.

Further, the determination of the taxation treatment of investments, activities or transactions requires an interpretation of the relevant taxation laws and significant judgment in circumstances where there may be differing but reasonable interpretations which may be adopted. Consistent with other companies of the size and diversity of UMG, UMG may be the subject of periodic information requests, investigations and audit activities by tax authorities in the jurisdictions in which the companies operate.

- (xiii) *There is a risk that UMG's insurance policies may not be sufficient to cover a future loss, or the estimated cost of insurance may be higher than anticipated*

As part of the Demerger, UMG will place insurance policies with insurers of acceptable security and that it believes are at an appropriate level of retained risk and coverage for the business activities of UMG, however adequate insurance coverage for potential losses and liabilities may not be available in the future on commercially reasonable terms. If UMG experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover UMG's replacement costs, lost revenues, increased expenses, or liabilities to third parties. This may adversely impact UMG's financial performance. There is also a risk that UMG's insurance costs may be higher than anticipated due to supply and demand factors, such as (but not limited to) underwriter risk appetite, the trend of insurance claims in a given market or industry, or UMG's individual claims performance. Consequently, the UMG Pro Forma Historical Income Statements and UMG Pro Forma Historical Cash Flow Statements may underestimate the cost of insurance into the future.

- (xiv) *UMG is at risk of litigation by various stakeholders*

Exposure to litigation brought by third parties such as customers, regulators, employees or business associates could negatively impact UMG's financial performance through increased costs, payments for damages and reputational damage.

- (xv) *Changes to accounting standards may adversely impact UMG's financial performance*

Changes in accounting or financial reporting standards may adversely impact the financial performance of UMG. In addition, UMG's financial performance may be impacted by changes to accounting policies after the Demerger or differences in interpretations of accounting standards.

- (xvi) *Changes or additions to existing regulations may adversely affect UMG's operations and financial performance*

UMG's operations are regulated by environmental, competition and anti-trust, industrial / employment, anti-bribery and corruption, chain of responsibility, international and local trading, privacy, health and safety and other laws, instruments and regulations in the countries where it operates. These regulations govern parts of their operations, including the manufacturing, marketing, advertising, distribution and sales of their products. The alcohol industry in a particular market could be subject to changes or additions to existing regulations (e.g. tariffs and duties) which could increase the cost of goods and, as a result, lead to a decline in the consumption of beer and/or whisky. UMG may be subject

to costs, investigations, penalties, liabilities, loss of reputation, and other adverse effects as a result of failure to comply with these laws and regulations.

The impact of the regulatory environment could also result in new or more stringent forms of regulatory oversight of both UMG and the industries in which it operates. This may lead to increased levels of expenditure on compliance, monitoring, controls, access regimes and arrangements and land use restrictions, affecting UMG or its suppliers, and other conditions that could materially adversely affect its business, financial condition and results of operations.

(xvii) *Loss of customer contracts or supply agreements*

UMG enters into agreements with customers and suppliers which support UMG's current operating model and investment horizon. There is a risk that:

- (A) customers do not renew their agreements with UMG; and
- (B) when UMG's current supply agreements expire, UMG is unable to renew those agreements on similar or more favourable commercial terms,

which could negatively impact UMG's financial and operational performance.

(xviii) *UMG is exposed to seasonal fluctuations in working capital*

UMG faces variations throughout the year in its draw on working capital, relating to customer purchasing behaviour and payment terms and commodity prices.

Historically, UMG's working capital levels have peaked around 31 March and unwind in the second half to 30 September. Working capital levels year on year may vary from historical levels due to changes in commodity prices and customer mix.

(xix) *UMG is vulnerable to global and regional geopolitical and sovereign risk and is subject to global and regional economic downturns and risks relating to turmoil in global financial and commodity markets*

As an international maltster and warehouse and distribution business, UMG is vulnerable to geopolitical tensions which may impact global trade flows (including the implementation of trade agreements or accords between nations, for example, the US-China Trade Agreement announced on 15 January 2020). There is a risk that UMG's financial performance may be impacted when those tensions affect markets or commodities that UMG participates in.

UMG is also vulnerable to sovereign risk, such as the imposition of tariff barriers, foreign exchange restrictions, and nationalisation of assets, which could adversely impact UMG's financial performance.

The level of demand for UMG's services and products is also affected by global and regional demographic and macroeconomic factors, including population growth rates, changes in standards of living, and the occurrence of global health events.

(c) New or increased risks that arise as a result of the Demerger

If the Demerger is implemented, UMG may face new or increased risks as a result of being a standalone, ASX-listed company, independent from GrainCorp.

- (i) *As an ASX-listed company, UMG's share price is subject to change*

As with any investment in an ASX-listed company, the trading price of UMG Shares may fluctuate depending on the financial and operating performance of UMG, as well as other external factors over which UMG has no control.

- (ii) *An increase in interest rates may adversely impact UMG's ability to service its debt and pay dividends*

UMG will have external interest-bearing liabilities after the Demerger and, accordingly, will be exposed to movements in interest rates. While UMG will take reasonable steps to protect itself from rising interest rates through the use of hedges, a rise in rates may still adversely affect UMG's interest payments for floating rate instruments.

A summary of the UMG Facilities which will be in place on implementation of the Demerger, is set out in Section 2.17(i). From time to time, UMG will be required to refinance its debt financing facilities. There is no certainty as to the availability of debt financing facilities, or the terms on which such facilities may be provided, in the future. UMG's ability to refinance its debt on favourable terms as it becomes due, or to repay debt, and its ability to raise further finance on favourable terms for business opportunities will depend on market conditions and UMG's future financial performance. In particular, UMG may incur higher interest rates and/or additional fees associated with future debt refinancing. UMG's ability to service its debt will depend on its future financial performance and, if it is unable to do so, UMG's lenders may act to enforce their rights against it, which may impact UMG's financial or operating performance and impair its ability to pay dividends.

- (iii) *UMG cannot guarantee the payment of dividends or the extent to which dividends will be franked*

UMG's dividend policy will be determined by the UMG Board at its discretion and may change over time. As described in Section 2.8, UMG expects to initially distribute approximately 60% of UMG's underlying NPAT as dividends to UMG Shareholders. However, there is no assurance that UMG will pay dividends at any particular level or with any particular regularity.

UMG will also be restricted by the Corporations Act in the amount of dividends that it is able to pay to UMG Shareholders. Under the Corporations Act, a company may only pay dividends if:

- (A) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (B) it is fair and reasonable to the company's shareholders as a whole; and
- (C) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

Whether any given dividend can be franked will depend on UMG's franking account balance, which will depend on the amount of Australian income tax paid by UMG after the Demerger. Immediately after the Demerger is implemented, UMG's franking account balance will be nil. UMG intends to frank its dividends to the extent practicable, although this is expected to be less than 100% as UMG operates in a number of geographical regions, resulting in a substantial proportion of UMG's earnings being derived outside Australia and which, therefore, may not be subject to Australian income tax.

4.4 Risks specific to an investment in GrainCorp after the Demerger

(a) Overview

This Section 4.4 describes a number of risks specific to an investment in GrainCorp following the Demerger. The risks set out in this Section 4.4 may adversely affect the operating or financial performance of GrainCorp, and the investment returns or value of GrainCorp Shares, after the Demerger. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of GrainCorp.

Many of the risks described in this Section 4.4 are risks to which GrainCorp Shareholders are exposed as at the date of this Demerger Scheme Booklet as a result of their shareholding in GrainCorp, while others arise as a result of GrainCorp becoming a smaller and less diversified business after implementation of the Demerger than it is at the date of this Demerger Scheme Booklet.

This Section 4.4 should be read in conjunction with Section 1, which sets out (among other things) the advantages and disadvantages of the Demerger, Section 4.2, which sets out the risks relating to the Demerger, and Section 4.3, which sets out the risks specific to an investment in UMG after the Demerger.

(b) Existing business risks

- (i) *Adverse weather conditions, longer term climate change and other unpredictable factors may adversely affect the availability and price of agricultural commodities, as well as GrainCorp's operations*

Adverse weather conditions have historically caused volatility in the agricultural sector. Consequently, GrainCorp's operating results can be negatively impacted by change in grain production, which can affect the volume and pricing of grain that GrainCorp stores and handles, transports, trades, exports, imports and uses in its business, and may negatively affect the creditworthiness of agricultural producers who transact with GrainCorp.

In addition to weather conditions, the availability and price of grain is also subject to other external factors, including consumer preferences, farmer sowing decisions, domestic and international government farm support programs and policies, international trade policies, demand for biofuels, commodity price volatility, the outbreak of a plant disease or pest and the occurrence of and resistance of pests to pesticides used to protect grain in storage. These factors may cause price and supply volume volatility and, consequently, volatility in GrainCorp's operating results.

GrainCorp has sought to mitigate and manage these risks by entering into the Crop Production Contact (see Section 3.6(c) for more information). In 2018, GrainCorp commissioned research into 23 wheat cropping districts in eastern Australia, under likely climate scenarios to 2030 and 2050, to help inform GrainCorp's climate change impact assessment. The initial findings suggested that, despite a predicted increase in weather volatility and occurrence of extreme weather events, eastern Australia would continue to be a productive grain-producing region, capable of sustaining or perhaps even increasing existing crop volumes and qualities. Further detail on this research is included at www.graincorp.com.au/about-graincorp/sustainability-and-environment#more-111832.

(ii) *GrainCorp can be vulnerable to logistics supply chain risks*

GrainCorp's operations rely on rail and road transportation to move grain and other commodities from their source location to storage sites, and from these sites to GrainCorp's port terminals and manufacturing plants and to other domestic consumers. A disruption or delay in rail transportation service provision, for instance as a result of temporary or permanent rail track closures, a lack of rolling stock or train crews or access to rail paths, may adversely impact GrainCorp's operations and operating results.

GrainCorp coordinates road and/or rail freight and charter vessels in and to international jurisdictions to transport products to consumers. GrainCorp enters into various international trade terms to effect these shipments and, where required and available, takes out insurance to mitigate and manage these risks. A disruption in international shipping activities, for instance ship diversion, port blockages or acts of piracy, may adversely impact GrainCorp. There is also risk in successfully recouping losses from the insurer in a timely manner.

(iii) *GrainCorp is subject to grain and agricultural processing industry operational risks*

Companies involved in the grain and agricultural processing industries are subject to various operational risks, including those which may be categorised as claims and disputes in relation to grain or finished product inventory (from handling losses, infestation, damage or destruction to storage facilities, and theft), machinery breakdown, farmer storage and transport decisions, extreme weather (such as cyclones, floods, drought and frost), fire, supply issues, loss of long term agreements for supply or for premises, regulatory requirements, workplace disputes and impacts of environmental obligations.

(iv) *GrainCorp is subject to various minimum volume and throughput commitments for storage and movement of commodities*

For the efficient operation of our business, GrainCorp has entered into various minimum volume and throughput commitments with multiple counterparties. There is a risk that GrainCorp will not be able to meet its minimum volume and throughput commitments, which may adversely impact GrainCorp's financial performance.

(v) *GrainCorp is vulnerable to industry cyclicalities and commodity prices*

GrainCorp may be adversely affected by changes in the price of commodities, additional raw materials, and processed products, caused by market fluctuations beyond GrainCorp's control, which have in the past, and could in the future, adversely affect margins.

Additionally, market factors (such as weather, production, market demand and supply) in international jurisdictions may adversely impact supply and demand dynamics in Australia and, consequently, volumes and margins.

(vi) *GrainCorp is subject to food and stockfeed industry risks*

GrainCorp is subject to food and stockfeed industry risks which include, but are not limited to, spoilage, contamination, fumigation or treatment applications which do not meet destination requirements, incorrect grade classification, tampering or other adulteration of products, product recalls, government regulation, destination or industry standards, shifting customer and consumer preferences and concerns, including concerns regarding genetically modified organisms and plants, and

potential product liability claims. These matters could adversely affect GrainCorp's business and operating results.

- (vii) *Changes or additions to existing regulations may adversely affect GrainCorp's operations and financial performance*

GrainCorp's operations are regulated by environmental, competition and anti-trust, industrial/employment, anti-bribery and corruption, chain of responsibility, international and local trading, privacy, health and safety and other laws, instruments and regulations in the countries where GrainCorp operates, including those which govern open access to ports, the labelling, carriage, shipment, export, use, storage, discharge and disposal of grain, food products, dangerous goods and hazardous materials. GrainCorp may be subject to costs, investigations, penalties, liabilities, loss of reputation, and other adverse effects as a result of failure to comply with these laws and regulations.

The impact of the regulatory environment as well as the focus on food safety and traceability, customer focus on port access and natural resource management, amongst other things, could also result in new or more stringent forms of regulatory oversight of both GrainCorp and the industries in which GrainCorp operates. This may lead to increased levels of expenditure on compliance, monitoring, controls, access regimes and arrangements and land use restrictions, affecting GrainCorp or its suppliers, and other conditions that could materially adversely affect its business, financial condition and results of operations.

- (viii) *GrainCorp is a capital-intensive business and depends on cash provided by its operations as well as access to external financing to operate and expand its business*

GrainCorp requires significant amounts of capital to operate its business and fund capital expenditure. If GrainCorp is unable to generate sufficient cash flows or raise sufficient external financing on attractive terms to fund these activities, GrainCorp may be forced to limit its operations and growth plans, and/or dispose of assets or businesses, which may adversely impact efficiency, productivity, competitiveness and therefore, financial results.

- (ix) *GrainCorp's debt financing*

A summary of the GrainCorp Post-Demerger Facilities is set out in Section 3.13(k). From time to time, GrainCorp will be required to refinance its debt financing facilities. There is no certainty as to the availability of debt financing facilities, or the terms on which such facilities may be provided, in the future. GrainCorp's ability to refinance its debt on favourable terms as it becomes due, or to repay debt, and its ability to raise further finance on favourable terms for business opportunities will depend on market conditions and GrainCorp's future financial performance. In particular, GrainCorp may incur higher interest rates and/or additional fees associated with future debt refinancing. GrainCorp's ability to service its debt will depend on its future financial performance and, if it is unable to do so, GrainCorp's lenders may act to enforce their rights against it, which may impact GrainCorp's financial or operating performance and impair its ability to pay dividends.

(x) *GrainCorp is exposed to seasonal fluctuations in working capital*

GrainCorp faces variations throughout the year in its draw on working capital, relating to customer purchasing behaviour and payment terms and commodity prices.

Historically, GrainCorp's working capital levels have peaked around 31 March and unwind in the second half to 30 September. Working capital levels year on year may vary from historical levels due to changes in commodity prices and timing of shipments.

(xi) *GrainCorp is subject to global and regional economic downturns and risks relating to turmoil in global financial and commodity markets*

The level of demand for GrainCorp's services and products is affected by global and regional demographic and macroeconomic factors, including population growth rates, changes in standards of living and the occurrence of global health events. A significant downturn in global economic growth, or recessionary conditions in major geographic regions, may lead to a change in consumer preferences impacting demand for grain and agricultural commodities, such as flour, which could adversely affect GrainCorp's business and results of operations.

Additionally, weak global economic conditions or the tightening of credit markets may adversely affect the financial viability of some of GrainCorp's customers, suppliers and other counterparties, which in turn may negatively impact GrainCorp's financial condition and results of operations.

(xii) *GrainCorp's risk management practices and strategies may not be effective*

GrainCorp's business is affected by fluctuations in grain and other agricultural commodity prices, transportation costs, energy and utility prices, interest rates and foreign currency exchange rates. GrainCorp's hedging strategies may not be successful in minimising its exposure to these fluctuations. It is possible that GrainCorp's control procedures and risk management policies may not successfully prevent GrainCorp's traders from entering into unauthorised transactions that have the potential to alter or impair GrainCorp's financial position.

(xiii) *GrainCorp's financial performance after the Demerger may be impacted by changes in taxation treatment / laws*

Changes in taxation laws (or their interpretation) in countries where GrainCorp has operations after the Demerger could materially affect GrainCorp's financial performance and impact on its ability to obtain the benefit of existing tax losses and claim other beneficial tax attributes. Further, the determination of the taxation treatment of investments, activities or transactions requires an interpretation of the relevant taxation laws and significant judgment in circumstances where there may be differing but reasonable interpretations which may be adopted. Consistent with other companies of the size and diversity of GrainCorp (after the Demerger), GrainCorp may be the subject of periodic information requests, investigations and audit activities by tax authorities in the jurisdictions in which the companies operate.

- (xiv) *There is a risk that GrainCorp's insurance policies may not be sufficient to cover a future loss after the Demerger, or that the estimated cost of insurance may be higher than anticipated*

GrainCorp has placed insurance policies with insurers of acceptable security and that it believes are at an appropriate level of retained risk and coverage for the business activities of GrainCorp after the Demerger, however adequate insurance coverage for potential losses and liabilities may not be available in the future on commercially reasonable terms. If GrainCorp experiences a loss in the future, the proceeds of the applicable insurance policies, if any, may not be adequate to cover GrainCorp's replacement costs, lost revenues, increased expenses, or liabilities to third parties. This may adversely impact GrainCorp's financial performance after the Demerger. There is also a risk that GrainCorp's insurance costs may be higher than anticipated due to supply and demand factors, such as (but not limited to) underwriter risk appetite, the trend of insurance claims in a given market or industry, or GrainCorp's individual claims performance. Consequently, the GrainCorp Post-Demerger Pro Forma Historical Income Statements and GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements may underestimate the cost of insurance into the future.

- (xv) *GrainCorp is at risk of litigation by various stakeholders after the Demerger*

Exposure to litigation brought by third parties such as customers, regulators, employees or business associates could negatively impact on GrainCorp's financial performance after the Demerger through increased costs, payments for damages and reputational damage.

- (xvi) *Changes to accounting standards may adversely impact GrainCorp's financial performance after the Demerger*

Changes in accounting or financial reporting standards may adversely impact the financial performance of GrainCorp after the Demerger. In addition, GrainCorp's financial performance may be impacted by changes to accounting policies after the Demerger or differences in interpretations of accounting standards.

- (xvii) *GrainCorp is vulnerable to increases in energy and utility prices*

Electricity and natural gas are key energy inputs in GrainCorp's storage and handling and manufacturing operations. As such, increases in energy prices may adversely affect GrainCorp's financial performance.

- (xviii) *There is a risk that GrainCorp's information technology systems fail*

GrainCorp relies on its own and third-party information technology infrastructure and systems for its day-to-day operations, including for processing transactions, maintaining its website, product ordering, stock management and logistics systems and maintaining other back-office functions. Any failure of, or disruption to, information technology infrastructure or systems could impede the processing of transactions or limit GrainCorp's ability to carry out its operations.

Similarly, the unauthorised disclosure of confidential company, customer, team member or third-party information, or a malicious attack on GrainCorp's infrastructure, could impact reputation or competitive strength or result in litigation and/or regulatory enforcement.

GrainCorp seeks to mitigate these risks by regularly testing and reviewing its information technology infrastructure and systems, and continually seeking to strengthen data and cyber security.

- (xix) *There is a risk that industrial disputes have adverse reputational, legal or financial impacts on GrainCorp*

A failure to successfully manage industrial relations or ensure proper design, processes, security and culture at sites, ports and manufacturing facilities could result in industrial disputes that cause adverse reputational, financial, legal, productivity or morale impacts. GrainCorp seeks to mitigate these risks with a targeted industrial relations strategy. For example, the roll-off profile of enterprise agreements is typically staggered to minimise disruption to GrainCorp's operations.

- (xx) *Inability to execute GrainCorp's business strategy may adversely impact its financial performance*

GrainCorp may fail to implement or achieve its strategic objectives due to a range of factors, including management not prioritising delivery of the key pillars of the strategy, changes to the competitive environment that result in a change to the underlying assumptions of the strategy, poor cost management, loss of key management personnel, failure to effectively execute a project, or adverse economic shocks and uncertainty.

A failure by GrainCorp to execute its strategy may result in a failure to maintain or increase operating margins and market share. As part of its strategy, GrainCorp may undertake acquisitions or divestments from time to time, acquire or develop new storage and handling assets or invest capital in new projects or initiatives. While GrainCorp is focussed on maintaining discipline in its capital expenditure, such actions could result in a variability of earnings over time, may give rise to liabilities or may distract management from business as usual operations, which could potentially adversely affect GrainCorp's financial performance.

GrainCorp's results of operations and financial condition could be adversely affected if GrainCorp encounters difficulties in effectively managing the budgeting, forecasting and other process control issues in the pursuit of future growth. To manage this, GrainCorp undertakes a detailed budgeting process to minimise the likelihood of cost overruns on planned projects that further GrainCorp's strategic objectives.

- (xxi) *GrainCorp is vulnerable to global and regional geopolitical and sovereign risk*

As an international commodity trader, and importer and exporter of agricultural commodities, GrainCorp is vulnerable to geopolitical tensions which may impact global trade flows (including the implementation of trade agreements or accords between nations, for example, the US-China Trade Agreement announced on 15 January 2020). There is a risk that GrainCorp's financial performance may be impacted when those tensions affect the markets or commodities that GrainCorp participates in.

GrainCorp is also vulnerable to sovereign risk, such as the imposition of tariff barriers, foreign exchange restrictions, and nationalisation of assets, which could adversely impact GrainCorp's financial performance.

(c) New or increased risks that arise as a result of the Demerger

(i) *GrainCorp will become less diversified as a result of the Demerger*

As noted in Section 1.4(a) above, the performance of the UMG Business has been relatively uncorrelated with the remainder of GrainCorp's business. As a result, after the Demerger is implemented, GrainCorp will become less diversified than it is at the date of this Demerger Scheme Booklet and will have increased exposure to fluctuations in financial markets.

(ii) *GrainCorp's Crop Production Contract may not adequately reduce the existing risks faced by GrainCorp and may create new or alter existing risks*

The Crop Production Contract is intended to provide GrainCorp with payment(s) during poor seasonal harvest periods where total winter grain production on the east coast of Australia is within certain agreed thresholds (subject to agreed limits). In order to reduce the annual fixed cost of the Crop Production Contract, GrainCorp has also agreed to make payment(s) during strong seasonal harvest periods (subject to agreed limits). Because the payments under the Crop Production Contract will not be determined by direct reference to GrainCorp's operations, level of grain receivals, market share, revenue or profits, the Crop Production Contract may not adequately reduce the existing risks faced by GrainCorp. The Crop Production Contract may also create new or alter existing risk factors for GrainCorp, including (but not limited to) counterparty risk in the event that the counterparty to the Crop Production Contract fails to make payments owed to GrainCorp. See Section 3.6(c) for more information about the Crop Production Contract.

(iii) *GrainCorp cannot guarantee the payment of dividends or the extent to which dividends will be franked after the Demerger*

After the Demerger, GrainCorp's dividend policy will be determined by the GrainCorp Board at its discretion and may change over time. As described in Section 3.6(b), after the Demerger, the GrainCorp Board intends to follow a dividend policy which has regard to current earnings and cash flows, available franking credits, future cash flow requirements and targeted credit metrics. As a result, GrainCorp expects to distribute between 50% and 70% of GrainCorp's underlying NPAT as dividends to GrainCorp Shareholders. However, there is no assurance that GrainCorp will pay dividends at any particular level or with any particular regularity.

GrainCorp will also be restricted by the Corporations Act in the amount of dividends that it is able to pay to GrainCorp Shareholders. Under the Corporations Act, a company may only pay dividends if:

- (A) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (B) it is fair and reasonable to the company's shareholders as a whole; and
- (C) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

GrainCorp intends to frank its dividends to the extent practicable. Whether any given dividend can be franked will depend on GrainCorp's franking account balance, which will depend on the amount of Australian income tax paid by GrainCorp. Immediately after the Demerger is implemented, GrainCorp's franking account balance is expected to be approximately \$14.9 million.

SECTION 5

Details of the Demerger

5.1 Overview

(a) Introduction

The Demerger will be implemented by way of a scheme of arrangement pursuant to Part 5.1 of the Corporations Act.

If the Demerger Scheme becomes Effective, then:

- (i) each GrainCorp Shareholder (other than Selling Shareholders) will receive one UMG Share for every GrainCorp Share they held as at the Demerger Scheme Record Date;
- (ii) UMG (other than the Retained UMG Shareholding) will be demerged from GrainCorp; and
- (iii) the ASX Listing will proceed.

For the Demerger Scheme to become Effective, a number of Conditions Precedent must be satisfied. These Conditions Precedent are summarised in Section 5.2 of this Demerger Scheme Booklet and are set out in full in the Demerger Scheme in Attachment C.

(b) Summary of key steps required to implement the Demerger

The key steps required to implement the Demerger are as follows:

Step 1 - GrainCorp Shareholders vote on the Demerger Scheme and Capital Reduction:

GrainCorp Shareholders will vote on whether to approve the Demerger Scheme and the Capital Reduction at the Demerger Scheme Meeting and General Meeting, respectively. Each GrainCorp Shareholder who is registered on the GrainCorp Register at 10:00am on Saturday, 14 March 2020 is entitled to vote at the Demerger Scheme Meeting and the General Meeting. The Demerger will only be implemented if the Demerger Scheme Resolution and the Capital Reduction Resolution are passed by the Requisite Majorities of GrainCorp Shareholders.

Step 2 - Application for approval by the Court: If the Demerger Scheme Resolution and the Capital Reduction Resolution are passed by the Requisite Majorities of GrainCorp Shareholders, GrainCorp will apply to the Court to approve the Demerger Scheme on the Second Court Date (which is expected to be Friday, 20 March 2020).

Step 3 - Effective Date: The Demerger Scheme will become Effective on the date on which the office copy of the order of the Court under Section 411(10) of the Corporations Act approving the Demerger Scheme is lodged with ASIC (or such other date as the Court determines or specifies in the order). GrainCorp intends to lodge the order of the Court with ASIC on the next Business Day after the Second Court Date, which is expected to be Monday, 23 March 2020. The date on which GrainCorp does this will be the Effective Date. On the Effective Date, GrainCorp will also notify ASX that the Demerger Scheme has become Effective. Once the Demerger Scheme becomes Effective, GrainCorp will become bound to implement the Demerger Scheme in accordance with its terms.

Step 4 - Demerger Scheme Record Date: GrainCorp Shareholders (other than Selling Shareholders) will be entitled to receive UMG Shares under the Demerger if they are registered as the holders of GrainCorp Shares at 7:00pm on the Demerger Scheme Record Date. The Demerger Scheme Record Date is currently expected to be Wednesday, 25 March 2020.

Step 5 - Demerger Implementation Date: If the Demerger Scheme becomes Effective, GrainCorp will undertake the Capital Reduction and declare and pay the Demerger Dividend. As a result, Demerger Participants will be credited with their Demerger Distribution Entitlement on the Demerger Implementation Date. The Demerger Implementation Date is currently expected to be Wednesday, 1 April 2020. Under the Demerger Scheme, instead of Demerger Participants receiving their Demerger Distribution Entitlements in cash, GrainCorp will automatically apply these amounts as consideration

for the UMG Shares to be transferred to Eligible GrainCorp Shareholders or the Sale Agent (in respect of the UMG Shares to which Selling Shareholders would otherwise be entitled).

Step 6 - ASX Listing of UMG Shares: UMG will apply to the ASX for admission to the Official List and for Official Quotation of UMG Shares on the ASX. If the Demerger is implemented, UMG Shares will trade under the code “UMG” and are expected to commence trading on a deferred settlement basis on or about Tuesday, 24 March 2020 and on a normal settlement basis on Thursday, 2 April 2020.

(c) The Demerger Distribution

The Demerger will be effected by the Demerger Distribution, and implemented by the Demerger Scheme. The Demerger Distribution, consisting of the Capital Reduction and Demerger Dividend, is a necessary step in the process of implementing the Demerger. The Capital Reduction is conditional on the Demerger Scheme becoming Effective.

The Demerger Distribution Entitlement will not be paid to Demerger Participants in cash but will instead be applied on behalf of the Demerger Participants as consideration for the transfer of UMG Shares under the Demerger Scheme.

The Demerger Distribution Amount (being the aggregate amount of the Demerger Distribution) will be an amount equal to the market value of all UMG Shares, calculated by reference to the VWAP of UMG Shares for the first 5 Business Days starting from the date of the commencement of trading of UMG Shares on ASX (including on a deferred settlement basis).

The Capital Reduction is a return of capital to Demerger Participants on their GrainCorp Shares. The Demerger Scheme is conditional on the Capital Reduction Resolution being approved. The Capital Reduction is an equal capital reduction pursuant to section 256B(1) of the Corporations Act. The Capital Reduction Amount will not be paid in cash to GrainCorp Shareholders. Instead, under the Demerger Scheme, GrainCorp will apply the Capital Reduction Entitlement (together with the Demerger Dividend) on behalf of GrainCorp Shareholders as consideration for the transfer of the UMG Shares under the Demerger.

GrainCorp Shareholders will be asked to approve the Capital Reduction at the General Meeting.

The Demerger Dividend is a component of the Demerger Distribution. The Demerger Dividend Amount (being the aggregate amount of the Demerger Dividend) will be equal to the Demerger Distribution Amount less the Capital Reduction Amount. The Demerger Dividend does not require the approval of GrainCorp Shareholders but the payment of the Demerger Dividend is conditional on the Demerger Scheme becoming Effective. The Demerger Dividend Amount will not be paid in cash to GrainCorp Shareholders. Instead, the Demerger Dividend Amount will be applied (together with the Capital Reduction Amount) on behalf of GrainCorp Shareholders as consideration for the transfer of UMG Shares under the Demerger.

5.2 Conditions Precedent to the Demerger Scheme becoming Effective

(a) Summary of Conditions Precedent

The Demerger will become binding on GrainCorp and Demerger Participants, and the Demerger will be implemented, if all of the Conditions Precedent are satisfied. The Conditions Precedent are, in summary:

- (i) **no change to GrainCorp Directors’ recommendation:** between the date of this Demerger Scheme Booklet and the Demerger Scheme Meeting, a majority of GrainCorp Directors continues to recommend, and does not change or withdraw their recommendation, to GrainCorp Shareholders to vote in favour of the Demerger Scheme Resolution and the Capital Reduction Resolution;

- (ii) **no termination of Demerger Scheme Implementation Deed or Demerger Deed Poll:** as at the Delivery Time, neither the Demerger Scheme Implementation Deed nor the Demerger Deed Poll has been terminated;
- (iii) **GrainCorp Shareholder approval of the Demerger Scheme:** the Demerger Scheme Resolution is passed by the Requisite Majority of GrainCorp Shareholders at the Demerger Scheme Meeting;
- (iv) **GrainCorp Shareholder approval of the Capital Reduction:** the Capital Reduction Resolution is passed by the Requisite Majority of GrainCorp Shareholders at the General Meeting;
- (v) **regulatory approvals:** all regulatory approvals which are necessary or, in GrainCorp's or UMG's reasonable opinion, desirable in connection with or to implement the Demerger, have been obtained (and not revoked), and any conditions of these approvals are reasonably satisfactory to GrainCorp and UMG;
- (vi) **ASX Listing:** ASX approves the admission of UMG to the Official List and Official Quotation of UMG Shares, subject only to the Demerger Scheme becoming Effective and such other conditions that are acceptable to GrainCorp and UMG (each acting reasonably); and
- (vii) **Court approval of the Demerger Scheme:** approval of the Demerger Scheme by the Court at the Second Court Hearing (either unconditionally and without alteration or with alterations or conditions consented to by GrainCorp and UMG).

All of the Conditions Precedent to implementation of the Demerger are set out in full in the Demerger Scheme in Attachment C. If all of the Conditions Precedent are not satisfied, and the Demerger Scheme has not become Effective, by 30 June 2020 (or such other date agreed between GrainCorp and UMG), then the Demerger Scheme will lapse and be of no effect and the Demerger will not proceed.

As at the date of this Demerger Scheme Booklet, none of the Conditions Precedent have been satisfied. As at the date of this Demerger Scheme Booklet, the GrainCorp Board is not aware of any circumstances that would cause a Condition Precedent not to be satisfied.

(b) **Implications of a Condition Precedent not being satisfied and the Demerger not proceeding**

If GrainCorp Shareholders do not approve the Demerger, the Court does not approve the Demerger Scheme or any of the other Conditions Precedent described in Section 5.2(a) above are not satisfied, the Demerger will not proceed. If the Demerger does not proceed:

- (i) the Capital Reduction will not be undertaken by GrainCorp;
- (ii) GrainCorp will not declare and pay the Demerger Dividend;
- (iii) GrainCorp Shareholders will not receive UMG Shares (or, in the case of Selling Small Shareholders and Ineligible Foreign Holders, they will not receive the proceeds from the sale of UMG Shares by the Sale Agent);
- (iv) GrainCorp Shareholders will retain their current holding of GrainCorp Shares (unless they otherwise sell their GrainCorp Shares);
- (v) GrainCorp will continue to own UMG and UMG will continue to operate as a division of GrainCorp;
- (vi) the changes to the GrainCorp Board and senior management team described in Sections 2.10 and 3.7 will not occur;
- (vii) the advantages of the Demerger, as described in Section 1.3, will not be realised;
- (viii) the disadvantages and risks of the Demerger described in Sections 1.4 and 4 will not arise;

- (ix) the GrainCorp Board may consider alternatives for the UMG Business; and
- (x) GrainCorp will incur one-off transaction costs associated with the Demerger (see Sections 1.4 and 3.13(j)(ii) for more information about these transaction costs).

5.3 Separation and capitalisation of UMG

(a) Restructure

As part of preparing GrainCorp and UMG for the Demerger, GrainCorp has completed the Restructure, an internal restructure to ensure that:

- (i) the UMG Group is created as a separate corporate group, capable of operating on a standalone basis; and
- (ii) all subsidiaries, assets and liabilities which do not relate directly to the UMG Business will be held by GrainCorp,

with effect from implementation of the Demerger.

The Restructure primarily involved the transfer of certain assets and liabilities between the relevant GrainCorp Post-Demerger Group and UMG Group members required to achieve the purpose of the Restructure described above, in particular, the transfer of all of the assets and liabilities relating to Saxon Agriculture, a United Kingdom-based grain, oilseed and pulse trading business that is part of the GrainCorp Business, from the UMG Group to a member of the GrainCorp Post-Demerger Group.

(b) Capitalisation of UMG

(i) *Equity capital structure of UMG*

As at the date of this Demerger Scheme Booklet, UMG has 100 fully paid ordinary shares on issue, which are held by GrainCorp.

After the Demerger Scheme Record Date, UMG will subdivide its ordinary share capital into such number of UMG Shares as are required to facilitate the transfer of UMG Shares to Eligible GrainCorp Shareholders and the Sale Agent (on behalf of Selling Shareholders) in accordance with each GrainCorp Shareholder's Demerger Entitlement.

Immediately after implementation of the Demerger:

- (A) 90% of the UMG Shares on issue will be held by Eligible GrainCorp Shareholders (and the Sale Agent on behalf of Selling Shareholders, as described in Section 5.6); and
- (B) 10% of the UMG Shares on issue will be held by GrainCorp (as a result of the Retained UMG Shareholding).

The number of UMG Shares on issue immediately after implementation of the Demerger will be:

- (A) the number of UMG Shares held by Eligible GrainCorp Shareholders (and the Sale Agent, on behalf of Selling Shareholders); plus
- (B) the number of UMG Shares held by GrainCorp reflecting the 10% Retained UMG Shareholding.

As a result, the total number of UMG Shares on issue immediately after implementation of the Demerger will be greater than the number of GrainCorp Shares on issue as at the date of this Demerger Scheme Booklet.

(ii) *Capital structure and funding*

As part of the implementation of the Demerger, it is necessary to establish an appropriate, standalone capital structure for UMG. Accordingly:

- (A) all inter-company loans between members of the UMG Group and the GrainCorp Post-Demerger Group will be eliminated or discharged before the implementation of the Demerger; and
- (B) UMG and GrainCorp will have separate debt financing facilities with effect from implementation of the Demerger, the key terms of which are summarised in Sections 2.17(i) (in respect of UMG) and 3.13(k) (in respect of GrainCorp).

Other than in connection with the capital restructuring of UMG required for the Demerger, UMG has not raised any capital for the 3 months before the date of this Demerger Scheme Booklet and does not expect that it will need to raise any capital in the 3 months after the date of this Demerger Scheme Booklet.

(c) Deeds of cross guarantee

GrainCorp and certain members of the GrainCorp Pre-Demerger Group are parties to a deed of cross guarantee (GrainCorp Cross Guarantee) in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. UMG and certain UMG Group members are parties to the GrainCorp Cross Guarantee. After the Demerger becomes Effective:

- (i) GrainCorp will lodge a revocation deed with ASIC to revoke the participation of UMG and the relevant UMG Group members in the GrainCorp Cross Guarantee; and
- (ii) UMG and the relevant UMG Group members will enter into a separate deed of cross guarantee in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

5.4 Demerger voting and Second Court Hearing

(a) Demerger Scheme Meeting

In accordance with an order of the Court dated Wednesday, 5 February 2020, GrainCorp has convened the Demerger Scheme Meeting to be held at 10:00am on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.

At the Demerger Scheme Meeting, GrainCorp Shareholders are being asked to approve the Demerger Scheme by voting in favour of the Demerger Scheme Resolution.

The terms of the Demerger Scheme are set out in Attachment C and the Notice of Demerger Scheme Meeting is set out in Attachment E. The fact that the Court has ordered that the Demerger Scheme Meeting be convened is no indication that the Court has a view as to the merits of the Demerger Scheme or as to how GrainCorp Shareholders should vote. On these matters, GrainCorp Shareholders must reach their own decision.

GrainCorp Shareholders who are registered on the GrainCorp Register at 10:00am on Saturday, 14 March 2020 will be entitled to vote at the Demerger Scheme Meeting. Instructions on how to vote at the Demerger Scheme Meeting are set out on page 13 of this Demerger Scheme Booklet.

For the Demerger Scheme to proceed, votes “in favour of” the Demerger Scheme Resolution at the Demerger Scheme Meeting must be received from a Requisite Majority of GrainCorp Shareholders. A Requisite Majority for the Demerger Scheme Resolution is:

- (i) a majority in number (more than 50%) of GrainCorp Shareholders, who are present and voting either in person or by proxy, attorney or, in case of corporate GrainCorp Shareholders, by corporate representative; and
- (ii) at least 75% of the total number of votes cast by GrainCorp Shareholders on the Demerger Scheme Resolution.

If the Demerger Scheme is approved by the Requisite Majority, and all Conditions Precedent to the Demerger Scheme are satisfied, the Demerger Scheme will become Effective and GrainCorp and all Demerger Participants will be bound by the Demerger Scheme, including those who voted against the Demerger Scheme Resolution and those who did not vote on the Demerger Scheme Resolution.

If the Demerger Scheme is not approved by the Requisite Majority of GrainCorp Shareholders at the Demerger Scheme Meeting, the Demerger will not proceed.

The Demerger Scheme is subject to a number of Conditions Precedent, which are summarised in Section 5.2(a) above and set out in full in the Demerger Scheme in Attachment C. The Conditions Precedent to the Demerger Scheme include that the Capital Reduction is approved by GrainCorp Shareholders. This means that if the Capital Reduction Resolution is not passed by the Requisite Majority of GrainCorp Shareholders at the General Meeting, the Demerger Scheme will not become Effective and the Demerger will not proceed.

The GrainCorp Directors unanimously recommend that GrainCorp Shareholders vote in favour of the Demerger Scheme Resolution, and intend to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Demerger Scheme Resolution.

The Independent Expert has also concluded that the Demerger is in the best interests of GrainCorp Shareholders.

(b) General Meeting

GrainCorp has convened the General Meeting in accordance with section 249CA of the Corporations Act, to be held at 10:30am on Monday, 16 March 2020 (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) at Hilton Hotel, 488 George Street, Sydney NSW 2000.

At the General Meeting, GrainCorp Shareholders are being asked to approve the Capital Reduction by voting in favour of the Capital Reduction Resolution.

Details of the Capital Reduction Resolution are set out in the Notice of General Meeting set out in Attachment F.

GrainCorp Shareholders who are registered on the GrainCorp Register at 10:00am on Saturday, 14 March 2020 will be entitled to vote at the General Meeting. Instructions on how to vote at the General Meeting are set out on page 13 of this Demerger Scheme Booklet.

For the Capital Reduction to be implemented, votes “in favour of” the Capital Reduction Resolution at the General Meeting must be received from a Requisite Majority of GrainCorp Shareholders (being at least 50% of the votes cast on the resolution by GrainCorp Shareholders who are present and voting at General Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative).

GrainCorp has proposed the Capital Reduction Resolution to permit GrainCorp to reduce its share capital on the Demerger Implementation Date. The Capital Reduction Amount will not be paid in cash. Instead, it will be applied on behalf of GrainCorp Shareholders as consideration for the transfer of UMG Shares under the Demerger Scheme.

The Capital Reduction is conditional on the Demerger Scheme becoming Effective. This means that GrainCorp will not undertake the Capital Reduction unless the Demerger Scheme Resolution is passed by the Requisite Majority and the Demerger Scheme becomes Effective.

The GrainCorp Directors are of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to GrainCorp Shareholders as a whole and will not materially prejudice the ability of GrainCorp to pay its creditors. The GrainCorp Directors unanimously

recommend that GrainCorp Shareholders vote in favour of the Capital Reduction Resolution, and intend to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Capital Reduction Resolution.

The Independent Expert has also concluded that, in its opinion, the Capital Reduction will not materially prejudice GrainCorp's ability to pay its existing creditors.

(c) Second Court Hearing

If the Demerger Resolutions are approved by the Requisite Majorities of GrainCorp Shareholders, and all other Conditions Precedent (other than Court approval of the Demerger Scheme) have been satisfied, GrainCorp will apply to the Court for orders approving the Demerger Scheme at the Second Court Hearing, which is expected to be held on or around Friday, 20 March 2020.

The Demerger Scheme will become Effective on the date on which the Court order approving the Demerger Scheme is lodged with ASIC, which is expected to be Monday, 23 March 2020.

5.5 Entitlement to participate in the Demerger

GrainCorp Shareholders as at the Demerger Scheme Record Date will participate in the Demerger. The way in which an individual GrainCorp Shareholder participates will depend on whether that GrainCorp Shareholder is:

- an Eligible GrainCorp Shareholder;
- an Ineligible Foreign Holder; or
- a Small Shareholder who has lodged a valid Sale Facility Election Form (and has not withdrawn it) before the Sale Facility Election Time.

A GrainCorp Shareholder whose registered address on the GrainCorp Register as at the Demerger Scheme Record Date is in one of the following jurisdictions will be an Eligible GrainCorp Shareholder and will be entitled to have UMG Shares transferred to them if the Demerger is implemented:

- Australia and its external territories;
- The Bahamas;
- Canada;
- Germany;
- Hong Kong;
- Isle of Man;
- New Zealand;
- the United Kingdom;
- the United States; or
- a jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder.

Details of how Ineligible Foreign Holders and Selling Small Shareholders will participate in the Demerger are set out in Section 5.6 below.

For the purposes of determining which GrainCorp Shareholders will be eligible to receive a Demerger Distribution Entitlement and participate in the Demerger, dealings in GrainCorp Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the GrainCorp Register as the holder of the relevant GrainCorp Shares as at the Demerger Scheme Record Date; and
- in all other cases, the registrable transfer or transmission applications in respect of those dealings are received by the GrainCorp Registry before the Demerger Scheme Record Date with sufficient time to allow for registration of the transferee on or before the Demerger Scheme Record Date (and the transferee remains registered on the Demerger Scheme Record Date).

For the purpose of determining Demerger Entitlements, GrainCorp will not accept for registration or recognise any transfer or transmission application in respect of GrainCorp Shares received after the Demerger Scheme Record Date, or received before that time but not in registrable form.

The Demerger Distribution Entitlement will be satisfied by:

- **Eligible GrainCorp Shareholders:** one UMG Share being transferred to each Eligible GrainCorp Shareholder (other than Selling Small Shareholders) for every GrainCorp Share held by the Eligible GrainCorp Shareholder (other than Selling Small Shareholders) at the Demerger Scheme Record Date; or
- **Selling Shareholders:** one UMG Share being transferred to the Sale Agent for every GrainCorp Share held by the Selling Shareholder at the Demerger Scheme Record Date.

5.6 Selling Shareholders and Sale Facility

(a) Ineligible Foreign Holders

A Demerger Participant will be an Ineligible Foreign Holder for the purpose of the Demerger if their registered address on the GrainCorp Register as at the Demerger Scheme Record Date is in a jurisdiction outside one of the following jurisdictions:

- (i) Australia and its external territories;
- (ii) The Bahamas;
- (iii) Canada;
- (iv) Germany;
- (v) Hong Kong;
- (vi) Isle of Man;
- (vii) New Zealand;
- (viii) the United Kingdom;
- (ix) the United States; or
- (x) a jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder.

Ineligible Foreign Holders will participate in the Demerger Distribution on the same basis as all Eligible GrainCorp Shareholders. However, UMG Shares will not be transferred to Ineligible Foreign Holders. Instead, each Ineligible Foreign Holder will be taken to have directed GrainCorp to transfer the UMG Shares to which they would otherwise be entitled to the Sale Agent. The UMG Shares to which the Ineligible Foreign Holders would otherwise be entitled will be transferred to the Sale Agent on behalf of Ineligible Foreign Holders on the Demerger Implementation Date and will be dealt with as described in Section 5.6(c).

(b) Small Shareholders

Small Shareholders are Eligible GrainCorp Shareholders who individually hold 500 or fewer GrainCorp Shares as at the Demerger Scheme Record Date. If you are a Small Shareholder, you may elect not to receive UMG Shares under the Demerger by lodging a Sale Facility Election Form. If you are a Small Shareholder and make a valid Sale Facility Election, you will be taken to have directed GrainCorp to transfer the UMG Shares to which you would otherwise be entitled to the Sale Agent. All of the UMG Shares to which you would otherwise be entitled under the Demerger will be sold under the Sale Facility and the Sale Facility Proceeds remitted to you (free of any brokerage costs or stamp duty, but excluding any interest and after deducting any applicable withholding tax).

Small Shareholders who do not wish to receive UMG Shares under the Demerger can elect not to do so by lodging a Sale Facility Election Form by:

- (i) if the Small Shareholder received a hard copy of this Demerger Scheme Booklet (which enclosed a personalised Sale Facility Election Form):
 - (A) mailing it to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 using the reply-paid envelope provided; or
 - (B) delivering it by hand to the GrainCorp Registry, located at 1A Homebush Bay Drive, Rhodes NSW 2138.
- (ii) if the Small Shareholder received a copy of this Demerger Scheme Booklet electronically, or would otherwise prefer to submit a Sale Facility Election Form online, lodging a Sale Facility Election Form online by going to www.demerger.graincorp.com.au and following the prompts and instructions.

Sale Facility Election Forms must be lodged online, or received by the GrainCorp Registry, by the Sale Facility Election Time, being 5:00pm on Monday, 23 March 2020.

Small Shareholders may withdraw their Sale Facility Election by lodging a Sale Facility Election Withdrawal Form by completing and returning the enclosed Sale Facility Election Withdrawal Form by:

- (i) if the Small Shareholder received a hard copy of this Demerger Scheme Booklet (which enclosed a personalised Sale Facility Election Withdrawal Form):
 - (A) mailing it to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 using the reply-paid envelope provided; or
 - (B) delivering it by hand to the GrainCorp Registry, located at 1A Homebush Bay Drive, Rhodes NSW 2138.
- (ii) if the Small Shareholder received a copy of this Demerger Scheme Booklet electronically:
 - (A) going to www.demerger.graincorp.com.au and following the prompts and instructions to make a request for a personalised Sale Facility Election Withdrawal Form to be provided to them; or
 - (B) calling the GrainCorp Shareholder Information Line on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia) Monday to Friday between 8:30am and 7:30pm (Sydney time) to make a request for a personalised Sale Facility Election Withdrawal Form to be provided to them,

and, once received, following the lodgement instructions contained in that personalised Sale Facility Election Withdrawal Form.

Sale Facility Election Withdrawal Forms must be received by the GrainCorp Registry by the Sale Facility Election Time, being 5:00pm on Monday, 23 March 2020.

Small Shareholders who do not validly lodge a Sale Facility Election Form will receive UMG Shares under the Demerger and may keep, sell or otherwise deal with the UMG Shares received by them.

(c) Operation of Sale Facility

The Sale Facility will be used to sell UMG Shares that would otherwise have been received by:

- (i) Ineligible Foreign Holders; and
- (ii) Small Shareholders who have made a valid Sale Facility Election (and have not withdrawn it before the Sale Facility Election Time).

Such UMG Shares will be transferred to the Sale Agent on the Demerger Implementation Date to be sold on behalf of those GrainCorp Shareholders under the Sale Facility.

Under the Sale Facility, the Sale Agent will, as soon as reasonably practicable (and in any event not more than 20 Business Days after the Demerger Implementation Date), sell, for the benefit of each Selling Shareholder, the UMG Shares on the ASX. The Sale Agent will sell those UMG Shares on the ASX at such price or prices and on such other terms as the Sale Agent determines in its discretion (and at the risk of the Selling Shareholders), acting in good faith with the objective of seeking to achieve the best price reasonably obtainable, having regard to, among other things:

- (A) the prevailing market conditions (including the prevailing price of UMG Shares on the ASX);
- (B) the prevailing demand for UMG Shares; and
- (C) the desire and requirement to maintain an orderly market in UMG Shares.

As the market price of UMG Shares will be subject to change from time to time, neither the sale price of those UMG Shares nor the proceeds of that sale can be guaranteed. After the ASX Listing, Selling Shareholders will be able to obtain information on the market price of UMG Shares on the ASX's website (www.asx.com.au).

The amount of money received by each Selling Shareholder, being the Sale Facility Proceeds, will be calculated on an averaged basis so that all Selling Shareholders receive the same price for each UMG Share sold on their behalf, subject to rounding down to the nearest whole Australian cent. Consequently, the amount received by a Selling Shareholder for each UMG Share may be more or less than the actual price that is received by the Sale Agent for that particular UMG Share.

Any interest earned on the proceeds of the sale UMG Shares by the Sale Agent will be retained by GrainCorp.

The Sale Facility Proceeds will be remitted to a Selling Shareholder (free of any brokerage costs or stamp duty, but after excluding any interest and deducting any applicable withholding tax) by (in GrainCorp's absolute discretion):

- (i) where a Selling Shareholder has, before the Demerger Scheme Record Date, made a valid election in accordance with the requirements of the GrainCorp Registry to receive payments from GrainCorp by electronic funds transfer to a bank account nominated by the Selling Shareholder, paying, or procuring the payment of, the relevant amount in Australian dollars by electronic means in accordance with that election; or
- (ii) despatching, or procuring the despatch of, a cheque for the relevant amount in Australian dollars to the Selling Shareholder by prepaid post to their registered address (as at the Demerger Scheme Record Date), such cheque being drawn in the name of the Selling Shareholder.

It is anticipated that the Sale Facility Proceeds will be despatched to Selling Shareholders by Friday, 15 May 2020. Selling Shareholders will not receive any interest on the Sale Facility Proceeds in respect of their UMG Shares.

The payment of the Sale Facility Proceeds from the sale of UMG Shares will be in full satisfaction of the rights of Selling Shareholders under the Demerger. Full details of this process are contained in clause 6 of the Demerger Scheme (which is set out in Attachment C).

Under the Demerger Scheme, each Selling Shareholder appoints GrainCorp as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Sale Agent to that Selling Shareholder.

5.7 Impact of Demerger on GrainCorp's employee incentive arrangements

GrainCorp currently operates two employee incentive plans:

- a short-term incentive (**STI**) plan under which participants may become eligible to receive an award delivered partly in the form of cash and partly in deferred rights to acquire GrainCorp Shares depending on performance during the relevant financial year assessed against a scorecard of financial and non-financial measures. Deferred rights awarded to the GrainCorp Managing Director and CEO cease to be restricted after 12 months and, for other senior managers, 50% of deferred rights cease to be restricted after 12 months and the remaining 50% cease to be restricted after 24 months; and
- a long-term incentive (**LTI**) plan under which participants are granted performance rights, each being a right to acquire a GrainCorp Share for nil consideration subject to the satisfaction of specified performance conditions over a three-year performance period.

This Section 5.7 describes the impact of the Demerger on the incentive and equity interests currently held by GrainCorp employees under the STI and LTI plans.

(a) Impact of Demerger on GrainCorp's STI arrangements

(i) *Deferred rights scheduled to vest on 30 September 2020*

As at the date of this Demerger Scheme Booklet, 89,808 deferred rights to acquire GrainCorp Shares that are scheduled to vest on 30 September 2020 have been granted to participants in the FY18 STI award and remain on foot. Each deferred right confers on the holder the right to acquire one GrainCorp Share on the valid exercise of the right.

For participants who hold deferred rights that are scheduled to vest on 30 September 2020 and will be employees of the GrainCorp Post-Demerger Group, in order to preserve the overall value of the deferred rights following the Demerger, and to ensure that participants are not disadvantaged by the Demerger, the GrainCorp Board has decided that, subject to the Demerger becoming Effective, it will grant participants who are employees of the GrainCorp Group upon Demerger additional deferred rights. The number of additional deferred rights will be calculated using the methodology approved by the GrainCorp Board, which is based on the average market price of GrainCorp Shares prior to the Demerger and the relative value of the GrainCorp Shares and UMG Shares following the Demerger.

The grant of additional rights to each participant will be made shortly after implementation of the Demerger on substantially the same terms as the participant's existing deferred rights that are scheduled to vest on 30 September 2020. The Demerger will not impact the terms under which the participant's existing deferred rights are held under the STI plan. The existing deferred rights will remain on foot subject to restriction until they vest on 30 September 2020, following which they will convert to GrainCorp Shares.

For participants who hold deferred rights that are scheduled to vest on 30 September 2020 and will be employees of the UMG Group upon Demerger, if the Demerger becomes Effective, the deferred rights will be cancelled prior to implementation of the Demerger. After the Demerger has been implemented, new awards will be granted to these participants by UMG wholly in deferred rights to acquire UMG Shares to ensure alignment between participants and UMG Shareholders and incentivise participants to focus on the performance of UMG following the Demerger. These new awards will be granted on the terms of the STI plan that UMG intends to put in place after the Demerger, as described in Section 2.14(b)(ii).

(ii) *FY20 STI award*

Invitations to participate in an STI in respect of FY20 have been made to eligible participants.

For participants who will be employees of the GrainCorp Post-Demerger Group, invitations to participate in the GrainCorp STI plan described in Section 3.10(a)(ii) will be made by the GrainCorp Board in respect of the remaining portion of FY20.

For participants who will be employees of the UMG Group upon Demerger, if the Demerger becomes Effective, invitations to participate in the UMG STI plan described in Section 2.14(b)(ii) will be made by the UMG Board in respect of the remaining portion of FY20.

Any payments will be based on a combination of GrainCorp performance to the date of Demerger and the performance of the respective employing entity's group post Demerger.

(b) Impact of Demerger on GrainCorp's LTI arrangements

(i) *FY18 LTI award*

The GrainCorp Board has decided, subject to the Demerger becoming Effective, to shorten the performance period applicable to the GrainCorp FY18 LTI award which is currently scheduled to end on 30 September 2020 to enable the FY18 LTI award to be performance tested shortly before implementation of the Demerger against the existing performance conditions applicable to the FY18 LTI award. To the extent performance rights the subject of the FY18 LTI award vest, the performance rights will be settled in GrainCorp Shares or cash in lieu of GrainCorp Shares, at the discretion of the GrainCorp Board. If the performance rights are settled by way of the issue or transfer of GrainCorp Shares to participants, those GrainCorp Shares will be issued or transferred to the relevant participants before the Demerger Scheme Record Date, to allow those participants to participate in the Demerger on the same basis as the other Demerger Participants.

(ii) *FY19 LTI award*

If the Demerger becomes Effective, the GrainCorp Board will cancel the GrainCorp FY19 LTI award prior to the Demerger Implementation Date given that only a short portion of the performance period applicable to the FY19 LTI award will have elapsed at the time of the Demerger.

5.8 Implementation of the Demerger

(a) Entitlement to, and transfer of, UMG Shares

If the Demerger is implemented, Demerger Participants will be credited with their Demerger Distribution Entitlement. Demerger Participants will not receive their Demerger Distribution Entitlement in cash. As described in Section 5.5 above, each Demerger Participant's Demerger Distribution Entitlement will be satisfied by:

- (i) **Eligible GrainCorp Shareholders:** one UMG Share being transferred to each Eligible GrainCorp Shareholder (other than Selling Shareholders) for every GrainCorp Share held by the Eligible GrainCorp Shareholder (other than Selling Shareholders) at the Demerger Scheme Record Date; or
- (ii) **Selling Shareholders:** one UMG Share being transferred to the Sale Agent for every GrainCorp Share held by each Selling Shareholder at the Demerger Scheme Record Date.
After the Demerger Scheme Record Date, the number of UMG Shares then on issue will be subdivided into such number of UMG Shares required to facilitate the transfer of UMG Shares to Eligible GrainCorp Shareholders and the Sale Agent (on behalf of Selling Shareholders) in accordance with each GrainCorp Shareholder's Demerger Entitlement under the Demerger. Except for Eligible GrainCorp Shareholders' tax file numbers, any binding instruction or notification between an Eligible GrainCorp Shareholder and GrainCorp relating to GrainCorp Shares as at the Demerger Scheme Record Date (including any instructions relating to payment of dividends or to communications from GrainCorp, including bank account details, email addresses and communication preferences) will, unless otherwise determined by UMG, be deemed to be a similarly binding instruction or notification to UMG in respect of relevant UMG Shares. UMG Shareholders may subsequently revoke or amend such instructions or notifications online or by written notice to UMG at its registered address or at the UMG Registry.

(b) Implementation of the Demerger

If:

- (i) GrainCorp Shareholders pass each of the Demerger Resolutions at the Demerger Scheme Meeting and General Meeting; and
- (ii) the Court approves the Demerger Scheme at the Second Court Hearing and all other Conditions Precedent are satisfied,

then GrainCorp will lodge the Court order approving the Demerger Scheme with ASIC. As a result:

- (i) the Demerger Scheme will become Effective on the Effective Date (expected to be Monday, 23 March 2020). At the close of trading on ASX on the Effective Date, GrainCorp Shares will cease trading cum-Demerger Distribution Entitlement;
- (ii) on or about Tuesday, 24 March 2020:
 - (A) UMG will be admitted to the Official List and UMG Shares will commence trading on ASX on a deferred settlement basis; and
 - (B) GrainCorp Shares will commence trading on ASX ex-Demerger Distribution Entitlement;
- (iii) on the Demerger Implementation Date (expected to be Wednesday, 1 April 2020):
 - (A) GrainCorp will undertake the Capital Reduction;
 - (B) GrainCorp will pay the Demerger Dividend;
 - (C) if you were a GrainCorp Shareholder at the Demerger Scheme Record Date, GrainCorp will apply your Demerger Distribution Entitlement as consideration for the transfer of UMG Shares under the Demerger Scheme either to you if you are an Eligible GrainCorp Shareholder (and not a Selling Shareholder) or to the Sale Agent on your behalf if you are a Selling Shareholder (as applicable); and
- (iv) immediately after implementation of the Demerger:
 - (A) 90% of the UMG Shares on issue will be held by Eligible GrainCorp Shareholders (and the Sale Agent on behalf of Selling Shareholders, as described in Section 5.6);

- (B) 10% of the UMG Shares on issue will be held by GrainCorp;
- (C) the number of UMG Shares on issue will be:
 - (1) the number of UMG Shares held by Eligible GrainCorp Shareholders (and the Sale Agent, on behalf of Selling Shareholders); plus
 - (2) the number of UMG Shares held by GrainCorp reflecting the 10% Retained UMG Shareholding,
 and, as a result, the total number of UMG Shares on issue immediately after implementation of the Demerger will be greater than the number of GrainCorp Shares on issue as at the date of this Demerger Scheme Booklet.

(c) ASX Listing of UMG

UMG will apply to the ASX for admission to the Official List and for Official Quotation of all UMG Shares on the ASX. The Demerger is conditional on the ASX approving the admission of UMG to the Official List and granting permission for Official Quotation of UMG Shares, subject to any conditions that ASX may reasonably require and which may be acceptable to GrainCorp and UMG (each acting reasonably).

If the Demerger Scheme becomes Effective, UMG Shares will trade under the code “UMG” and are currently expected to commence trading on a deferred settlement basis on Tuesday, 24 March 2020 and on a normal settlement basis on Thursday, 2 April 2020. UMG’s free float after implementation of the Demerger will be not less than 20%.

If you are an Eligible GrainCorp Shareholder (who is not a Selling Small Shareholder), it is your responsibility to determine your entitlement to UMG Shares before trading those UMG Shares, to avoid the risk of selling UMG Shares that you do not or will not own. If you sell UMG Shares without receiving confirmation of your Demerger Entitlement, you do so at your own risk.

If you are an Eligible GrainCorp Shareholder (and not a Selling Small Shareholder), holding statements for UMG Shares are currently expected to be dispatched to you on Wednesday, 1 April 2020. A holding statement will be sent to you by pre-paid post to your address on the GrainCorp Register as at the Demerger Scheme Record Date (unless GrainCorp and UMG believe that you are not known at that address) or as otherwise validly directed by the you.

Whether or not the Demerger proceeds, GrainCorp will continue to be listed on ASX and GrainCorp Shares will continue to be quoted on ASX under the code “GNC”.

5.9 Effect of the Demerger

(a) Demerger Principle

Under the Demerger Deed, to give effect to the Demerger, GrainCorp and UMG intend that, as a fundamental principle of the Demerger, on and from implementation of the Demerger:

- (i) *the UMG Group will have:*
 - (A) the entire economic benefit and risk and liabilities of the UMG Business as if the UMG Group had owned and operated the UMG Business at all times; and
 - (B) none of the economic benefit or risk or liabilities of the GrainCorp Business; and
- (ii) *the GrainCorp Post-Demerger Group will have:*
 - (A) the entire economic benefit and risk and liabilities of the GrainCorp Business as if GrainCorp had owned and operated the GrainCorp Business at all times; and
 - (B) none of the economic benefit or risk or liabilities of the UMG Business,

(the **Demerger Principle**). The Demerger Principle is subject to anything to the contrary set out in any other Demerger Transaction Document.

Further details of the key terms of the Demerger Deed (and the other Demerger Transaction Documents) are set out in Section 5.10.

(b) GrainCorp's creditors

In the opinion of the GrainCorp Directors, the Demerger will not, if implemented, materially prejudice GrainCorp's ability to pay its creditors.

5.10 Demerger Transaction Documents

(a) Demerger Scheme Implementation Deed

On 13 January 2020, GrainCorp and UMG entered into a Demerger Scheme Implementation Deed, which sets out the steps required to be taken by each of GrainCorp and UMG to give effect to the Demerger Scheme, the Capital Reduction, the Demerger Dividend, the ASX Listing and other steps necessary to implement the Demerger. The key terms of the Demerger Scheme Implementation Deed are set out below.

(i) Conditions Precedent

The obligations of GrainCorp and UMG in relation to implementation of the Demerger under the Demerger Scheme Implementation Deed are subject to the Conditions Precedent summarised in Section 5.2(a) being satisfied.

(ii) GrainCorp's obligations

GrainCorp agrees to take all steps reasonably required to give effect to the Demerger, including:

- (A) convening and holding the Demerger Scheme Meeting in accordance with the orders of the Court and convening and holding the General Meeting (to be held as soon as reasonably practicable after the conclusion of the Demerger Scheme Meeting);
- (B) assisting UMG:
 - (1) with the preparation and lodgement of its application to the ASX for the ASX Listing; and
 - (2) to give effect to the ASX Listing;
- (C) if the Demerger Scheme Resolution and the Capital Reduction Resolution are each passed by the Requisite Majority and all other Conditions Precedent (other than the Court Approval Condition) are satisfied, applying to the Court for orders approving the Demerger Scheme;
- (D) if the Demerger Scheme is approved by the Court at the Second Court Hearing, lodging an office copy of the Court orders with ASIC (at which time the Demerger Scheme will become Effective); and
- (E) if the Demerger Scheme becomes Effective:
 - (1) procuring that the GrainCorp Board resolves to reduce GrainCorp's share capital by the Capital Reduction Amount on the Demerger Implementation Date in accordance with the Capital Reduction Resolution;
 - (2) procuring that the GrainCorp Board passes a resolution to approve the declaration and payment of the Demerger Dividend; and

- (3) on the Demerger Implementation Date, undertaking the Capital Reduction, paying the Demerger Dividend, and doing everything necessary to effect the transfer of UMG Shares to Eligible GrainCorp Shareholders (who are not Selling Shareholders) and the Sale Agent (in respect of Selling Shareholders).

(iii) *UMG's obligations*

UMG agrees to take all steps reasonably required to give effect to the Demerger, including:

- (A) preparing and lodging its application to the ASX for the ASX Listing;
- (B) preparing and lodging the disclosure document required for the ASX Listing in accordance with the requirements of the ASX and the ASX Listing Rules;
- (C) using reasonable endeavours to ensure that:
 - (1) ASX approves the ASX Listing; and
 - (2) trading in UMG Shares (on a deferred settlement basis) commences on ASX on the Business Day after the Effective Date (or as soon as possible thereafter); and
- (D) if the Demerger Scheme becomes Effective:
 - (1) registering, or causing to be registered, Eligible GrainCorp Shareholders (who are not Selling Shareholders) as holders of UMG Shares and the Sale Agent as the holder of UMG Shares in respect of Selling Shareholders; and
 - (2) despatching holding statements in respect of UMG Shares to Eligible GrainCorp Shareholders (who are not Selling Shareholders) and the Sale Agent (as the holder of UMG Shares in respect of Selling Shareholders), as described in Section 5.8(c).

(iv) *Obligations in relation to the operation of the Sale Facility*

The Demerger Scheme Implementation Deed also contains obligations on GrainCorp and UMG to each procure that the Sale Agent effects the sale of the UMG Shares to which the Selling Shareholders would otherwise be entitled and pays the proceeds of that sale in accordance with the terms of the Sale Facility (as described in Section 5.6 above).

(v) *Termination of the Demerger Scheme Implementation Deed*

Either GrainCorp or UMG may terminate the Demerger Scheme Implementation Deed if:

- (A) a Condition Precedent has not been satisfied, or the Demerger Scheme has not become Effective before 30 June 2020 and, in certain circumstances, GrainCorp and UMG are unable to agree on an extension of time or the Demerger proceeding by way of alternative means or methods; or
- (B) the other party commits a material breach of the Demerger Scheme Implementation Deed which is not rectified within 10 Business Days of notification of the breach by the non-breaching party.

(b) Demerger Deed

GrainCorp and UMG have entered into the Demerger Deed, which records their agreement regarding the transitional, commercial and legal issues arising in connection with the legal and economic separation of UMG from GrainCorp as part of the Demerger, and the ongoing relationship between GrainCorp and UMG after the implementation of the Demerger.

The key terms of the Demerger Deed are summarised below.

(i) *Demerger Principle*

The fundamental underlying principle of the separation of UMG from GrainCorp under the Demerger is the Demerger Principle, which is described in Section 5.9(a) above.

(ii) *No claims against the other*

Consistent with the Demerger Principle, on and from implementation of the Demerger, neither GrainCorp nor UMG will have any right to make a claim against the other in respect of any liability arising directly or indirectly in relation to the Demerger, the operation of the GrainCorp Business (in the case of GrainCorp) or the operation of the UMG Business (in the case of UMG), unless expressly permitted by the Demerger Deed, the other Demerger Transaction Documents, or any other agreement between GrainCorp and UMG in existence at, or entered into after, the Demerger Implementation Date.

(iii) *Liability for Information Claims*

Any liability which arises from an Information Claim will be borne by:

- (A) UMG, to the extent that the Information Claim relates to information about UMG, the UMG Group and/or the UMG Business which has been verified by UMG management personnel or the UMG Board or has otherwise been prepared or verified using information provided by, or which otherwise originated from, the UMG Group (**UMG Information**); and
- (B) GrainCorp, to the extent that the Information Claim relates to information other than the UMG Information.

The regime for the allocation of liability arising from an Information Claim described above does not apply to:

- the Independent Expert's Report (for which the Independent Expert takes responsibility);
- the Investigating Accountant's Report (for which the Investigating Accountant takes responsibility); or
- Section 6 (Taxation implications of the Demerger for GrainCorp Shareholders), to the extent that KPMG takes responsibility for that Section as described in the "Important notices" at the beginning of this Demerger Scheme Booklet.

(iv) *Post-Demerger transfers*

The Demerger Deed sets out agreed mechanisms for the transfer between GrainCorp and UMG of, or other access to, any asset, contract, licence or intellectual property rights (and any related liability) which either of them owns or holds after the Demerger Implementation Date, but which formed part of, or was used in the conduct of:

- (A) the GrainCorp Business (in the case of UMG); or
- (B) the UMG Business (in the case of GrainCorp),

but which was not transferred as part of the Restructure to GrainCorp or UMG, as the case may be, or the ownership (or holding of which) is inconsistent with the Demerger Principle.

(v) *Assumption of liabilities*

Consistent with the Demerger Principle (but subject to the other terms of the Demerger Deed), on and from implementation of the Demerger:

- (A) GrainCorp assumes and is responsible for all liabilities relating to the GrainCorp Business; and
- (B) UMG assumes and is responsible for all liabilities relating to the UMG Business.

(vi) *Litigation management and costs*

Consistent with the Demerger Principle, on and from implementation of the Demerger:

- (A) GrainCorp will be responsible for the management and associated costs of existing and new litigation matters relating to the GrainCorp Business; and
- (B) UMG will be responsible for the management and associated costs of existing and new litigation matters relating to the UMG Business (other than certain existing litigation matters that GrainCorp will retain conduct and management of for the purpose of making and pursuing claims in respect of those matters under the GrainCorp Pre-Demerger Group's current insurance policies).

The Demerger Deed also sets out an agreed regime for dealing with and managing claims against GrainCorp and/or UMG made by third parties after implementation of the Demerger.

(vii) *Employees*

From the Demerger Implementation Date, subject to certain limited exceptions:

- (A) GrainCorp will be responsible for, and indemnifies UMG against any liability incurred by UMG that arises out of, all aspects of the employment of GrainCorp employees; and
- (B) UMG will be responsible for, and indemnifies GrainCorp against, any liability incurred by GrainCorp that arises out of, all aspects of the employment of UMG employees.

GrainCorp and UMG have also agreed to mutual non-solicitation obligations in respect of each other's employees. Neither GrainCorp nor UMG may, for a period of 2 years commencing on the Demerger Implementation Date, employ, make an offer of employment to, engage or make any offer to engage, a person who is employed (or otherwise engaged) by the other immediately after implementation of the Demerger. GrainCorp and UMG have agreed customary exceptions to these non-solicitation obligations in respect of non-targeted public advertisements for employment vacancies.

(viii) *Insurance*

On and from implementation of the Demerger, GrainCorp will be solely responsible for obtaining and maintaining insurance for the GrainCorp Post-Demerger Group and the GrainCorp Business and UMG will be solely responsible for obtaining and maintaining insurance for the UMG Group and the UMG Business.

On and from implementation of the Demerger, GrainCorp will be solely responsible for obtaining and maintaining insurance for the GrainCorp Post-Demerger Group and the GrainCorp Business and UMG will be solely responsible for obtaining and maintaining insurance for the UMG Group and the UMG Business.

In relation to run-off cover under GrainCorp's directors' and officers' liability insurance policy, GrainCorp is required to maintain such insurance cover for the benefit of each GrainCorp Post-Demerger Group company and UMG Group company and their respective directors and officers in office on implementation of the Demerger or at any time during the 7 years before the Demerger Implementation Date. This run-off cover will be renewed on an annual basis and must provide similar coverage to the terms and limits of GrainCorp's new directors' and officers'

liability insurance policy that will be put in place shortly after the Demerger Implementation Date.

GrainCorp and UMG must negotiate in good faith (having regard to the Demerger Principle and the extent to which the run-off cover is for the benefit of any GrainCorp Post-Demerger Group company or its current or former directors as compared to the extent to which the run-off cover is for the benefit of any UMG Group company or its current or former directors and officers) and use their reasonable endeavours to agree the proportion of the premium for the run-off cover that UMG will be responsible for.

However, if, as part of the process of arranging an annual renewal of this run-off cover, GrainCorp receives advice from its insurance broker that such run-off cover in respect of the next annual period which provides similar coverage to the terms and limits described above is:

- (A) not available to GrainCorp; or
- (B) is available to GrainCorp but at a premium that is materially greater than the premium paid by GrainCorp for the run-off cover in respect of the policy period that commenced when GrainCorp's new directors' and officers' liability insurance policy referred to above was put in place,

GrainCorp and UMG must negotiate in good faith (having regard to the prevailing insurance market conditions at the relevant time and the amount of the increased premium) and use their reasonable endeavours to agree amendments to the structure, terms and limits of the run-off cover and, if so agreed, the proportion of the premium for that run-off cover that UMG will be responsible for.

(ix) *Financial and tax assistance*

GrainCorp and UMG must assist each other in relation to the preparation of financial statements for the financial period during which the Demerger Implementation Date occurs and any uncompleted financial statements for any earlier relevant financial periods.

GrainCorp and UMG must also assist each other:

- in preparing their respective tax returns where they cover the period up to or including the Demerger Implementation Date; and
- in relation to any tax audit or statutory demand for information by a tax-related regulatory authority.

(x) *Mutual indemnities, and conduct of claims by a regulatory authority, in respect of Tax*

To give effect to the Demerger Principle:

- (A) GrainCorp indemnifies the UMG Group for any liability incurred by the UMG Group as a result of any claims by a regulatory authority after implementation of the Demerger in respect of tax attributable to the GrainCorp Business (and the parties have agreed a regime for conducting any such claims); and
- (B) UMG indemnifies the GrainCorp Post-Demerger Group for any liability incurred by the GrainCorp Post-Demerger Group as a result of any claims by a regulatory authority after implementation of the Demerger in respect of tax attributable to the UMG Business (and the parties have agreed a regime for conducting any such claims).

(xi) *Confidentiality*

GrainCorp and UMG must not use the other's confidential information for any purposes other than for the purposes permitted under the Demerger Deed, must store the other's confidential

information securely and must not allow any person access to the other's confidential information except to the extent that the disclosure is strictly necessary and is permitted under the Demerger Deed.

(xii) *Demerger costs*

In the Demerger Deed, GrainCorp and UMG have acknowledged and agreed:

- (A) that the responsibility for certain costs relating to the Demerger have been allocated as between GrainCorp and UMG in a manner agreed between GrainCorp and UMG and which is set out, or otherwise reflected, in the UMG Pro Forma Historical Financial Information and GrainCorp Post-Demerger Pro Forma Historical Financial Information; and
- (B) GrainCorp and UMG are each responsible for those costs in accordance with that allocation.

As an exception to the Demerger Principle, the responsibility for any other, unallocated costs relating to the Demerger (whether incurred before, on or after the Demerger Implementation Date) which do not wholly or predominantly relate to UMG or the UMG Business (which are the responsibility of UMG) or GrainCorp or the GrainCorp Business (which are the responsibility of GrainCorp) will be shared by GrainCorp and UMG in the following proportions:

- (A) GrainCorp: 50%; and
- (B) UMG: 50%.

To give effect to this agreed cost allocation, each of UMG and GrainCorp indemnifies the other against all liabilities that exceed the other's share of these costs.

(xiii) *Indemnities*

GrainCorp and UMG each give certain indemnities to the other required to give effect to the Demerger Principle and the terms of the Demerger Deed described above (including in respect of breaches of their respective obligations under the Demerger Deed).

(c) Demerger Deed Poll

UMG entered into the Demerger Deed Poll, under which UMG has undertaken in favour of Demerger Participants to take certain steps in respect of the implementation of the Demerger Scheme, including applying for admission to the Official List of the ASX and for Official Quotation of UMG Shares.

A copy of the Demerger Deed Poll is set out in Attachment D.

(d) Transitional Services Agreements

(i) *GrainCorp to UMG Transitional Services Agreement*

GrainCorp and UMG have entered into the GrainCorp to UMG Transitional Services Agreement, under which GrainCorp will provide certain services and support functions to the UMG Group which have historically been provided by members of the GrainCorp Post-Demerger Group. The services must be provided in substantially the same manner as the equivalent services that were provided by the GrainCorp Post-Demerger Group to the UMG Group in the 12-month period immediately preceding the Demerger Implementation Date.

GrainCorp will commence providing the services to UMG on the Demerger Implementation Date. GrainCorp must provide a service to UMG until the termination date in respect of that service specified in the GrainCorp to UMG Transitional Services Agreement, unless the termination date in respect of that service is extended by agreement between UMG and GrainCorp through good faith negotiation. The initial term during which GrainCorp must provide

a service to UMG ranges between 3 and approximately 12 months (depending on the service). UMG may, at any time, terminate the provision of a service for convenience by giving GrainCorp at least 30 days' notice of such termination.

Either GrainCorp or UMG may terminate the GrainCorp to UMG Transitional Services Agreement if the other party commits a material breach (which is incapable of remedy or, if it is capable of being remedied, is not remedied within 30 days of the party in breach receiving notice of the breach from the innocent party) or if an insolvency event occurs in respect of the other party.

The services to be provided by GrainCorp to UMG under the GrainCorp to UMG Transitional Services Agreement include:

- (A) information technology services;
 - (B) banking and finance-related transitional services, including accounting, statutory reporting, financial control and audit support services;
 - (C) treasury support services;
 - (D) payroll services;
 - (E) human resources support services, including transition assistance and support services, including in respect of performance management and employee review processes;
 - (F) taxation services (excluding the provision of taxation advice);
 - (G) the provision of office space at GrainCorp's head office in Sydney, New South Wales, Australia;
 - (H) certain legal and company secretarial services (excluding the provision of legal advice); and
 - (I) certain energy reporting and energy procurement and broking services.
- (ii) *UMG to GrainCorp Transitional Services Agreement*

GrainCorp and UMG have entered into the UMG to GrainCorp Transitional Services Agreement, under which UMG will provide certain services and support functions to GrainCorp which have historically been provided by members of the UMG Group. The services must be provided in substantially the same manner as the equivalent services that were provided by the UMG Group to the GrainCorp Post-Demerger Group in the 12-month period immediately preceding the Demerger Implementation Date.

UMG will commence providing the services to GrainCorp on the Demerger Implementation Date. UMG must provide a service to GrainCorp until the termination date in respect of that service specified in the UMG to GrainCorp Transitional Services Agreement, unless the termination date in respect of that service is extended by agreement between UMG and GrainCorp through good faith negotiation. The initial term during which UMG must provide a service to GrainCorp ranges between 6 and approximately 12 months (depending on the service). GrainCorp may, at any time, terminate the provision of a service for convenience by giving UMG at least 30 days' notice of such termination.

Either UMG or GrainCorp may terminate the GrainCorp to UMG Transitional Services Agreement if the other party commits a material breach (which is incapable of remedy or, if it is capable of being remedied, is not remedied within 30 days of the party in breach receiving

notice of the breach from the innocent party) or if an insolvency event occurs in respect of the other party.

The services to be provided by UMG to GrainCorp under the UMG to GrainCorp Transitional Services Agreement include:

- (A) accounting, statutory reporting and audit support services;
- (B) payroll services;
- (C) human resources support services, including transition assistance and support services in respect of workers' compensation, safety, health and environment-related reporting, and employee performance management; and
- (D) taxation services (excluding the provision of taxation advice).

(e) Pinkenba Property Arrangements Deed

GrainCorp Operations, GrainCo Australia and BBMC have entered into the Pinkenba Property Arrangements Deed, under which the parties agree to take certain steps required to give effect to the following arrangement:

- (i) GrainCorp Operations and GrainCo Australia will each transfer:
 - (A) the freehold properties it owns or in respect of which it has a freeholding lease at Pinkenba, Queensland which, as at the date of this Demerger Scheme Booklet, are jointly used by the GrainCorp Business and the UMG Business and on which BBMC operates a malting plant and GrainCorp operates a portside terminal for the storage and handling of predominately non-grain products (**Pinkenba Freehold Land**); and
 - (B) the bulk silos, receival hopper, grains maintenance buildings, storage sheds and certain other assets located on the Pinkenba Freehold Land (**Pinkenba Assets**),

to BBMC at book value;
- (ii) GrainCorp Operations and BBMC will enter into lease and licence arrangements in respect of the Pinkenba Freehold Land, under which:
 - (A) GrainCorp Operations will retain the right to access the Pinkenba Freehold Land and Pinkenba Assets required to conduct the GrainCorp Business on the Pinkenba Freehold Land as it was conducted at the date of this Demerger Scheme Booklet;
 - (B) the access described in paragraph (A) above will be for an aggregate term of approximately 50 years (subject to the exercise of options, as described below); and
 - (C) except in relation to the ad-hoc short-term usage of certain bunkers and silos, the aggregate annual rent and licence fees will initially be nominal (see below for more information),

(the **Pinkenba Tenure Arrangements**).

The Pinkenba Tenure Arrangements will also have the following key terms:

- (i) the term will be comprised of:
 - (A) an initial term that expires on 30 September 2028 (which aligns with the term of GrainCorp's portside lease adjacent to the Pinkenba Freehold Land); and
 - (B) five further options (including one 10 year option, one 6 month option, a further two 10-year options and a final option of 11 years and 6 months in that order) in favour of GrainCorp Operations, the last 3 of which will be conditional on BBMC becoming the owner of the freehold title to the land the subject of the freeholding lease described above (there will also be the option for the parties, by mutual agreement, to enter into a new lease when the land the subject of the freeholding lease converts to freehold land on 30 April 2039);
- (ii) BBMC must make payments under the relevant freeholding lease as and when they fall due and must procure the conversion of the relevant property to a freehold title no later than the end of the term of the freeholding lease;
- (iii) the rent payable by GrainCorp Operations will be nominal (\$1.00 per annum under each lease and licence) until the later to occur of a change of control of GrainCorp or GrainCorp Operations (or such other Related Body Corporate of GrainCorp that may become the lessee after commencement of the lease) or 30 September 2040, from which time the rent/licence fees will be adjusted in line with market review provisions;
- (iv) GrainCorp Operations will be permitted to make structural additions and alterations to the assets the subject of the Pinkenba Tenure Arrangements with the consent of BBMC; and
- (v) GrainCorp Operations will be responsible for structural and capital maintenance in respect of the land (and buildings and assets) the subject of the Pinkenba Tenure Arrangements.

The transfer and lease back of the part of the Pinkenba Freehold Land which is the subject of the freeholding lease and the entry into certain of the Pinkenba Tenure Arrangements requires the consent of the Queensland Minister for Natural Resources, Mines and Energy, which will be sought before the Demerger Implementation Date. Ministerial consent to the transfer of the land was obtained on 21 January 2020. Consent to the lease will be assessed by the Minister after the transfer of the land. The lease will be conditional on the grant of Ministerial consent. If Ministerial consent has not been received before the implementation of the Demerger, a transitional arrangement will come into effect under which GrainCorp Operations and GrainCo Australia will continue to permit and facilitate the operation of the UMG Business on the Pinkenba Freehold Land by BBMC after implementation of the Demerger until that consent is received and the arrangements described above are implemented.

The documents giving effect to the transfer of the Pinkenba Freehold Land will contain customary releases and indemnities required to give effect to the principle that each party will be responsible for any historical contamination caused by that party in respect of the Pinkenba Freehold Land.

(f) Other commercial arrangements

Before the implementation of the Demerger, GrainCorp and UMG will enter into the following agreements, under which GrainCorp will continue to provide certain services to UMG after implementation of the Demerger:

- (i) an agreement under which;
 - (A) GrainCorp will continue to provide grain elevation services and site access at the Port of Geelong to UMG for a term of 20 years after implementation of the Demerger; and
 - (B) UMG will pay aggregate fees of approximately \$800,000 - \$1,000,000 to GrainCorp for the services provided by GrainCorp (as described above) in the 12-month period after implementation of the Demerger (during the term of the agreement, the fees payable by UMG will be adjusted annually to reflect increases in the consumer price index),

(Geelong Service Agreement); and
- (ii) an agreement under which;
 - (A) GrainCorp will continue to provide certain barley handling services to UMG at GrainCorp's facility at Pinkenba, Queensland for a term of 9 months after implementation (which may be extended by agreement between GrainCorp and UMG); and
 - (B) UMG will pay aggregate fees of approximately \$600,000 to GrainCorp for the services provided by GrainCorp (as described above) in the 9-month period after implementation of the Demerger,

(Pinkenba Barley Handling Agreement).

SECTION 6

Taxation implications of the Demerger for GrainCorp Shareholders

6.1 Introduction

This Section 6 contains a general summary of the Australian income tax, goods and services tax ("GST") and stamp duty implications arising for certain GrainCorp Shareholders under the Demerger. As this summary is necessarily general in nature, GrainCorp Shareholders should consult with a professional tax advisor regarding their particular circumstances.

This tax summary only addresses the position of GrainCorp Shareholders who:

- were registered on the GrainCorp Register at the Demerger Scheme Record Date;
- hold their GrainCorp Shares on capital account;
- are not subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* in relation to gains and losses on their GrainCorp Shares; and
- did not acquire their GrainCorp Shares under a GrainCorp employee incentive plan.

The comments in this Section 6 are generally directed at GrainCorp Shareholders who are Australian tax residents (and are not tax residents in any other country), and who acquired, or are taken to have acquired, their GrainCorp Shares on or after September 1985 (**Post-CGT GrainCorp Shares**).

References to non-resident GrainCorp Shareholders do not extend to non-resident GrainCorp Shareholders who, together with their associates:

- own more than 10% of the GrainCorp Shares or UMG Shares immediately after implementation of the Demerger; or
- have owned more than 10% of the GrainCorp Shares or UMG Shares at any time before the implementation of the Demerger.

This tax summary does not consider any tax consequences arising in jurisdictions other than Australia.

This tax summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Demerger Scheme Booklet.

6.2 Class Ruling

GrainCorp has applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the Demerger for GrainCorp Shareholders, including:

- whether demerger tax relief under Division 125 of the *Income Tax Assessment Act 1997* applies to the Demerger (**Demerger Tax Relief**); and
- confirming that no determination will be made under section 45B of the *Income Tax Assessment Act 1936* in respect of the Demerger Dividend (**section 45 determination**).

GrainCorp has received a draft of the class ruling setting out the Commissioner's preliminary views that:

- Demerger Tax Relief applies to the Demerger; and
- the Demerger Dividend will not be subject to Australian income tax as the Commissioner will not make a determination under section 45B of the *Income Tax Assessment Act 1936* in respect of the Demerger Dividend.

The final class ruling will only be received from the Commissioner after the Demerger Implementation Date. Accordingly, the information in this Section 6 includes the implications for GrainCorp Shareholders where:

- Demerger Tax Relief is available; and
- if contrary to the position outlined in the draft class ruling, Demerger Tax Relief is not available or a section 45B determination is made.

6.3 Summary of Expected Outcomes

On the Demerger Implementation Date:

- GrainCorp will undertake the Capital Reduction and pay the Demerger Dividend. The Capital Reduction and Demerger Dividend will not be paid in cash, but will be applied on behalf of the GrainCorp Shareholders as consideration for the UMG Shares to be transferred to Eligible GrainCorp Shareholders or the Sale Agent (in respect of the UMG Shares to which Selling Shareholders would otherwise be entitled); and
- each GrainCorp Shareholder (other than Ineligible Foreign Holders and Selling Small Shareholders) will receive one UMG Share for each GrainCorp Share held at the Demerger Scheme Record Date.

See Section 5.8 for more information about the steps that GrainCorp will take to implement the Demerger on the Demerger Implementation Date. In the case of Ineligible Foreign Holders and Selling Small Shareholders, the UMG Shares those GrainCorp Shareholders would otherwise be entitled to under the Demerger will be transferred to the Sale Agent to be sold on the ASX. The Sale Facility Proceeds will be remitted to the Ineligible Foreign Holders and Selling Small Shareholders. See Section 5.6 for more information about the operation of the Sale Facility.

The Australian income tax consequences of the Demerger for Australian resident GrainCorp Shareholders (assuming Demerger Tax Relief applies) are:

- the Demerger Dividend will not be assessable;
- if Demerger Tax Relief is chosen, any capital gain that would otherwise arise from the Capital Reduction will be disregarded. If Demerger Tax Relief is not chosen, certain GrainCorp Shareholders who have held their GrainCorp Shares for more than 12 months before the Demerger Implementation Date may be eligible for discount capital gains tax (**CGT**) treatment for any resulting capital gain;
- Eligible GrainCorp Shareholders (who are not Selling Small Shareholders) must apportion the tax cost base of their GrainCorp Shares just before the Demerger Implementation Date between their GrainCorp Shares and UMG Shares held immediately after the Demerger Implementation Date;
- Eligible GrainCorp Shareholders (who are not Selling Small Shareholders) will be treated as having acquired their UMG Shares when they acquired their original GrainCorp Shares when determining whether discount CGT treatment is available on any subsequent disposal of their UMG Shares;
- there will be no CGT consequences arising from the Capital Reduction for Eligible GrainCorp Shareholders (who are not Selling Small Shareholders) who are treated as having acquired their GrainCorp Shares before 20 September 1985 (**Pre-CGT GrainCorp Shares**). Such Eligible GrainCorp Shareholders who choose Demerger Tax Relief will be treated as having acquired their UMG Shares before 20 September 1985; and
- GrainCorp Shareholders whose UMG Shares are sold by the Sale Agent under the Sale Facility may make a capital gain or loss on disposal.

The Australian income tax outcomes for Australian resident GrainCorp Shareholders will be different if the Commissioner determines that Demerger Tax Relief is not available or that a section 45B determination will be made - refer to Section 6.5 below for further details.

No Australian tax consequences should arise for non-resident GrainCorp Shareholders unless their GrainCorp Shares are held through an Australian permanent establishment or the GrainCorp Shareholder has made an election to treat their GrainCorp Shares as taxable Australian property when they ceased to be an Australian resident.

6.4 Demerger Tax Relief

Provided the Commissioner determines that Demerger Tax Relief is available, the following taxation consequences will arise.

(a) Demerger Dividend

The Demerger Dividend will not be assessable to Australian resident GrainCorp Shareholders.

For non-resident GrainCorp Shareholders, the Demerger Dividend will not be assessable income in Australia nor subject to dividend withholding tax.

(b) Capital Reduction – CGT consequences

Australian resident GrainCorp Shareholders should generally be eligible to choose Demerger Tax Relief in respect of their GrainCorp Shares.

A GrainCorp Shareholder who chooses Demerger Tax Relief will disregard any capital gain that would otherwise arise under CGT event G1 (capital payment for shares) from the Capital Reduction. No formal election is required; rather, the way a GrainCorp Shareholder prepares their income tax return is sufficient evidence of the choice to obtain Demerger Tax Relief.

CGT event G1 will happen on the Demerger Implementation Date for GrainCorp Shareholders who hold Post-CGT GrainCorp Shares and who do not choose Demerger Tax Relief:

- (i) a capital gain will arise to the extent (if any) that the Capital Reduction Entitlement in respect of that GrainCorp Share exceeds the cost base of that GrainCorp Share.
- (ii) Australian resident individual, trust or complying superannuation fund GrainCorp Shareholders may be entitled to discount CGT treatment on any capital gain arising under CGT event G1. Discount CGT treatment is available if the GrainCorp Shares were acquired at least 12 months before the Demerger Implementation Date. The discount factor for resident individuals and trusts is 1/2 and for complying superannuation funds is 1/3.

No CGT consequences should arise for GrainCorp Shareholders in respect of Pre-CGT GrainCorp Shares.

No Australian tax consequences should arise for non-resident GrainCorp Shareholders unless the GrainCorp Shares are held through an Australian permanent establishment or the GrainCorp Shareholder has made an election to treat their GrainCorp Shares as taxable Australian property when they ceased to be an Australian resident. These non-resident GrainCorp Shareholders should seek their own tax advice on whether Demerger Tax Relief is available.

(c) CGT cost base in GrainCorp Shares and UMG Shares

Irrespective of whether Demerger Tax Relief is chosen, Australian resident GrainCorp Shareholders who hold Post-CGT GrainCorp Shares must apportion the tax cost base of their GrainCorp Shares immediately before implementation of the Demerger between the GrainCorp Shares and UMG Shares held immediately after implementation of the Demerger.

The first element of the tax cost base of each Post-CGT GrainCorp Share and associated UMG Share immediately after implementation of the Demerger will be determined as follows:

- (i) calculate the total of the cost bases of Post-CGT GrainCorp Shares held (worked out immediately before implementation of the Demerger); and
- (ii) allocate the total cost base between the Post-CGT GrainCorp Shares and associated UMG Shares held immediately after implementation of the Demerger on a reasonable basis, having

regard to the market values (or a reasonable approximation of the market values) of the GrainCorp Shares and UMG Shares immediately after implementation of the Demerger.

GrainCorp will provide information to assist GrainCorp Shareholders to determine the respective cost bases of their GrainCorp Shares and associated UMG Shares on the GrainCorp website (www.graincorp.com.au) following the Demerger.

For Australian resident GrainCorp Shareholders that hold Pre-CGT GrainCorp Shares:

- (i) if Demerger Tax Relief is chosen, their UMG Shares will be treated as pre-CGT assets (discussed further below in Section 6.4(d)); or
- (ii) if Demerger Tax Relief is not chosen, the UMG Shares' tax cost base and reduced cost base will be equal to their market value on the Demerger Implementation Date.

(d) Time of acquisition of UMG Shares

GrainCorp Shareholders holding Post-CGT GrainCorp Shares will be treated as having acquired their UMG Shares when they acquired their original GrainCorp Shares when determining whether discount CGT treatment is available on any subsequent disposal of their UMG Shares, irrespective of whether Demerger Tax Relief is chosen.

GrainCorp Shareholders that hold Pre-CGT GrainCorp Shares and who choose Demerger Tax Relief will be treated as having acquired the associated UMG Shares before 20 September 1985.

GrainCorp Shareholders that hold Pre-CGT GrainCorp Shares and who do not choose Demerger Tax Relief will be treated as having acquired the associated UMG Shares on the Demerger Implementation Date.

6.5 Demerger tax relief not available

If the Commissioner determines that Demerger Tax Relief is not available, Australian resident GrainCorp Shareholders:

- will be required to include the Demerger Dividend in their assessable income;
- will make a capital gain under CGT event G1 to the extent (if any) that the Capital Reduction Entitlement of the GrainCorp Shareholder in respect of their Post-CGT GrainCorp Shares exceeds the cost base of those shares;
- will have a tax cost base and reduced cost base in their UMG Shares equal to their market value on the Demerger Implementation Date; and
- will be taken to have acquired their UMG Shares on the Demerger Implementation Date for the purposes of determining eligibility for discount CGT treatment.

6.6 Holding UMG Shares after the Demerger

The Australian income tax consequences for holding UMG Shares after the Demerger should generally be the same as holding GrainCorp Shares.

(a) Dividends

Australian resident UMG Shareholders will be required to include dividends in respect of UMG Shares in their assessable income for the income year in which the dividends are paid.

Dividends may be franked to the extent determined by UMG.

For Australian resident UMG Shareholders:

- subject to the "qualified person" rules, the UMG Shareholder should include any franking credits in their assessable income and should be entitled to a tax offset equal to the franking credits received;
- a UMG Shareholder that is an individual or complying superannuation fund may be able to receive a tax refund in a particular year if the franking credits attached to the dividend exceed the tax payable on the UMG Shareholder's total taxable income for that income year;
- a UMG Shareholder that is a company will not be entitled to a tax refund of excess franking credits. Rather, any excess franking credits may be converted to a tax loss which can be carried forward to future years (subject to the UMG Shareholder satisfying certain loss carry forward rules); and
- UMG Shareholders that are trusts should obtain their own advice on the Australian tax treatment of dividends received from UMG and any franking credits attached.

For non-resident UMG Shareholders:

- to the extent a dividend is franked, no dividend withholding tax should arise; and
- to the extent a dividend is unfranked, dividend withholding tax of 30% will arise subject to application of a reduced withholding tax rate under a relevant double tax agreement between Australia and the country of residence of the UMG Shareholder.

(b) Sale of UMG Shares

Australian resident UMG Shareholders will make a capital gain or capital loss depending on whether the sale proceeds from the disposal of the UMG Shares exceed the cost base or are less than the reduced cost base of the UMG Shares sold.

Assuming Demerger Tax Relief is available, for the purpose of determining the CGT consequences from a sale of the UMG Shares:

- the cost base of the UMG Shares will be as outlined in Section 6.4(c);
- for the purpose of determining whether the UMG Shares are held for 12 months or more for the purpose of the CGT discount, UMG Shareholders will be treated as having acquired the corresponding UMG Shares on the same date as their GrainCorp Shares; and
- any capital gain or capital loss on the disposal of UMG Shares deemed to have been acquired before 20 September 1985 will be disregarded.

A non-resident UMG Shareholder should not be subject to CGT unless their UMG Shares are held via an Australian permanent establishment.

Australian resident UMG Shareholders that held Pre-CGT GrainCorp Shares and who do not choose Demerger Tax Relief will make a capital gain or capital loss depending on whether the sale proceeds from the disposal of the UMG Shares exceed the cost base or are less than the reduced cost base of the UMG Shares sold.

6.7 Sale Facility

The Australian income tax implications outlined in Sections 6.4 and 6.5 apply equally to GrainCorp Shareholders whose UMG Shares are sold under the Sale Facility.

CGT event A1 happens to UMG Shares sold through the Sale Facility. The disposal proceeds will equal the Sale Facility Proceeds.

Assuming Demerger Tax Relief is available, for the purpose of determining whether a capital gain or capital loss arises:

- the cost base of the UMG Shares will be determined as set out in Section 6.4(c);
- the UMG Shares are treated as having been acquired on the same date as the associated GrainCorp Shares when determining whether they have been held for 12 months or more for the purposes of the discount CGT treatment (refer to Section 6.4(d); and
- any capital gain or capital loss on the disposal of UMG Shares deemed to have been acquired before 20 September 1985 will be disregarded.

No Australian income tax consequences should arise for Selling Shareholders who are non-residents unless their UMG Shares are held via an Australian permanent establishment or the Selling Shareholder has made an election to treat their GrainCorp Shares as taxable Australian property when they ceased to be an Australian resident.

6.8 Other matters

(a) Australian Tax File Number (TFN) and Australian Business Number (ABN)

GrainCorp Shareholders will be given the opportunity to quote their TFN, TFN exemption or their ABN in respect of their UMG Shares acquired under the Demerger. These details will not be transferred or otherwise provided by GrainCorp to UMG.

GrainCorp Shareholders are not required to quote a TFN, TFN exemption or ABN in respect of their UMG Shares. However, failure to do so will mean TFN withholding may be required to be deducted from any dividends paid by UMG at the highest marginal tax rate plus the Medicare levy (currently 47% in total).

(b) GST

No GST should be payable by GrainCorp Shareholders in relation to their participation in the Demerger.

However, GrainCorp Shareholders' entitlement to claim full or partial input tax credits in relation to GST incurred on advisor fees and other costs relating to the Demerger will depend on the individual circumstances of each GrainCorp Shareholder.

(c) Stamp Duty

No stamp duty should be payable by GrainCorp Shareholders as a result of the Demerger.

(d) GrainCorp Employee Share Plans

Further information in relation to the tax treatment for employee share plan participants will be provided separately to employees.

SECTION 7

Additional information

7.1 Interests of GrainCorp Directors and UMG Directors in GrainCorp securities

The following table shows the marketable securities of GrainCorp held by or on behalf of each GrainCorp Director and UMG Director as at the date of this Demerger Scheme Booklet.

Individual	Position at the date of this Scheme Booklet	Position after the Demerger is implemented	GrainCorp Shares and/or GrainCorp Performance Rights
Peter Richards	Non-executive GrainCorp Director	Non-executive GrainCorp Chairman	10,000 GrainCorp Shares
Robert Spurway	None (see Section 3.7(a))	GrainCorp Managing Director and Chief Executive Officer	None
Kathy Grigg	Non-executive GrainCorp Director	Non-executive GrainCorp Director	None
Daniel Mangelsdorf	Non-executive GrainCorp Director	Non-executive GrainCorp Director	15,528 GrainCorp Shares
Donald McGauchie AO	Non-executive GrainCorp Director	Non-executive GrainCorp Director	88,957 GrainCorp Shares
Rebecca Dee-Bradbury	Non-executive GrainCorp Director	None (see Section 3.7(a))	14,100 GrainCorp Shares
Peter Housden	Non-executive GrainCorp Director	None (see Section 3.7(a))	8,083 GrainCorp Shares
Graham Bradley AM	Non-executive GrainCorp Chairman and Non-executive UMG Chairman	Non-executive UMG Chairman	33,500 GrainCorp Shares
Mark Palmquist	GrainCorp Chief Executive Officer	UMG Managing Director and Chief Executive Officer	282,000 GrainCorp Shares 329,273 GrainCorp Performance Rights
Barbara Gibson	Non-executive GrainCorp Director and Non-executive UMG Director	Non-executive UMG Director	7,000 GrainCorp Shares
Jane McAloon	Non-executive GrainCorp Director and Non-executive UMG Director	Non-executive UMG Director	None
Simon Tregoning	Non-executive GrainCorp Director and Non-executive UMG Director	Non-executive UMG Director	30,000 GrainCorp Shares
Terry Williamson	None	Non-executive UMG Director	None

GrainCorp Directors and UMG Directors who hold GrainCorp Shares will be entitled to vote at the Meetings and receive UMG Shares under the Demerger on the same terms as all other GrainCorp Shareholders.

Each GrainCorp Director intends to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Demerger Resolutions.

Mr Mark Palmquist currently holds 329,273 GrainCorp Performance Rights, of which:

- (a) 162,387 GrainCorp Performance Rights were issued to Mr Palmquist under the FY18 LTI award (**FY18 Rights**) and, as described in Section 5.7(b)(i), if the Demerger becomes Effective, these FY18 Rights will be performance tested shortly before implementation of the Demerger against the existing

performance conditions applicable to the FY18 LTI award. To the extent that some or all of the FY18 Rights vest, they will be settled in GrainCorp Shares or cash in lieu of GrainCorp Shares, at the discretion of the GrainCorp Board. If the FY18 Rights are settled by way of the issue or transfer of GrainCorp Shares to Mr Palmquist, those GrainCorp Shares will be issued or transferred before the Demerger Scheme Record Date to allow Mr Palmquist to participate in the Demerger in respect of those GrainCorp Shares on the same basis as the other Demerger Participants. If all of the FY18 Rights vest and are settled in cash, GrainCorp will pay Mr Palmquist \$1,265,000.00 in full satisfaction of his entitlement under the FY18 LTI award; and

- (b) 166,886 GrainCorp Performance Rights were issued to Mr Palmquist under the FY19 LTI award (**FY19 Rights**) and, as described in Section 5.7(b)(ii), if the Demerger becomes Effective, these FY19 Rights will be cancelled before the Demerger Implementation Date as Mr Palmquist will become an employee of UMG as part of implementation of the Demerger.

Mr Palmquist does not hold any deferred rights to acquire GrainCorp Shares under the STI plan described in Section 5.7(a).

As described in Section 2.10(a), if the Demerger becomes Effective, Mr Palmquist will become the Managing Director and Chief Executive Officer of UMG. As described in Section 2.14(b)(iv), the UMG Board intends to grant a one-off award to selected UMG employees, including Mr Palmquist, after the Demerger. The expected key terms of this one-off award are described in Section 2.14(b)(iv).

Except as stated in this Section 7.1, there are no marketable securities of GrainCorp held by or on behalf of GrainCorp Directors or UMG Directors as at the date of this Demerger Scheme Booklet.

No marketable securities of UMG are held by or on behalf of GrainCorp Directors or UMG Directors as at the date of this Demerger Scheme Booklet.

7.2 Agreements or arrangements with GrainCorp Directors and UMG Directors in connection with the Demerger

Other than as described elsewhere in this Demerger Scheme Booklet (including Sections 2.10, 2.12, 2.13 and 3.7 to 3.9 (inclusive)), there is no agreement or arrangement between a GrainCorp Director and another person in connection with or conditional on the outcome of the Demerger.

Other than as set out above or elsewhere in this Demerger Scheme Booklet, no UMG Director or proposed UMG Director, and no firm in which a UMG Director or proposed UMG Director is a partner or was a partner in the last two years, holds, or held at any time during the last two years before the date of this Demerger Scheme Booklet, any interest in:

- (a) the formation or promotion of UMG;
- (b) any property acquired or proposed to be acquired by UMG in connection with its formation or promotion or the Demerger; or
- (c) the Demerger,

and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any UMG Director or proposed UMG Director either to induce them to become, or to qualify them as, a UMG Director, or otherwise for services rendered by them in connection with the formation or promotion of UMG or the Demerger.

7.3 Payments and other benefits to directors, secretaries and executive officers of GrainCorp in connection with retirement from office

Other than as described elsewhere in this Demerger Scheme Booklet (including Sections 2.10, 2.12 to 2.14 (inclusive), 3.8 to 3.10 (inclusive) and 5.7 and 7.1), it is not proposed that any payment or other benefit be

made or given to any director, secretary or executive officer of GrainCorp (or of its Related Bodies Corporate) as compensation for loss of, or as consideration for, or in connection with his or her retirement from, office in GrainCorp (or in any of its Related Bodies Corporate) as a result of the Demerger (other than in his or her capacity as a GrainCorp Shareholder).

7.4 Interests of GrainCorp Directors in contracts with UMG Group

Other than as described elsewhere in this Demerger Scheme Booklet (including Sections 2.13 and 3.9), no GrainCorp Director has an interest in any contract entered into by the UMG Group.

7.5 Benefits from UMG

Other than as described elsewhere in this Demerger Scheme Booklet (including Sections 2.13 and 3.9), no GrainCorp Director has agreed to receive, or is entitled to receive, any benefit from UMG or any Related Body Corporate of UMG (other than a member of the GrainCorp Post-Demerger Group) in connection with or conditional on the outcome of the Demerger, other than in their capacity as a GrainCorp Shareholder.

7.6 Intentions of GrainCorp Directors and UMG Directors

(a) GrainCorp

Other than as described in this Demerger Scheme Booklet (including in Section 3.5 (“GrainCorp’s strategy”)), it is the present intention of the GrainCorp Directors who will remain as GrainCorp Directors after implementation of the Demerger (see Section 3.7(a)) to:

- (i) continue the GrainCorp Business;
- (ii) not make any major changes to the GrainCorp Business, except as contemplated in this Demerger Scheme Booklet; and
- (iii) continue the present policies of GrainCorp relating to the employment of its employees, following implementation of the Demerger.

(a) UMG

Other than as described in this Demerger Scheme Booklet (including in Section 2.5, “Business strategy”), it is the present intention of the UMG Directors as at the date of this Demerger Scheme Booklet to:

- (i) continue the UMG Business;
- (ii) not make any major changes to the UMG Business, except as contemplated in this Demerger Scheme Booklet; and
- (iii) continue the present policies of UMG relating to the employment of its employees, following implementation of the Demerger.

7.7 Summary of rights and liabilities attached to UMG Shares and other material provisions of UMG Constitution

(a) Introduction

The rights and liabilities attaching to ownership of UMG Shares arise from a combination of UMG’s Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the UMG Shares and of the other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of UMG Shareholders. The summary assumes that UMG is admitted to the Official List of the ASX.

(b) Meeting of members

Each UMG Shareholder is entitled to receive notice of, attend, and vote at, general meetings of UMG and to receive all notices, accounts and other documents required to be sent to UMG Shareholders under the UMG Constitution, Corporations Act and ASX Listing Rules. UMG must give at least 28 days' written notice of a general meeting.

(c) Voting at a general meeting

At a general meeting, every UMG Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a UMG Shareholder has appointed more than one proxy) and one vote on a poll for each UMG Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting does not have a second or casting vote.

(d) Dividends

The UMG Board may:

- (i) pay any dividends that, in its judgement, the financial position of UMG justifies;
- (ii) pay any dividend required to be paid under the terms of issue of a share;
- (iii) subject to the ASX Operating Rules, fix a record date for a dividend; and
- (iv) decide a method of payment.

(e) Transfer of UMG Shares

Subject to the UMG Constitution and any restrictions attached to a UMG Share, UMG Shares may be transferred by proper ASTC transfer effected in accordance with the ASX Settlement Operating Rules, Corporations Act and ASX Listing Rules or by a written transfer in any usual form or in any other form approved by the UMG Board and permitted by the relevant laws and ASX requirements. The UMG Board may decline to register a transfer of UMG Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

(f) Issue of further shares

The UMG Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, cancel or grant options over, or otherwise dispose of, UMG Shares on such terms as the UMG Board decides.

(g) Variation of class rights

Immediately after implementation of the Demerger, the only class of share on issue in UMG will be UMG Shares. The procedure set out in the UMG Constitution must be followed for any variation of rights attached to the UMG Shares subject to the Corporations Act and the terms of issue of a class of share. The rights attached to a class of shares in UMG may be varied by:

- the holders of at least 75% of the issued shares in the class consenting in writing; or
- a special resolution passed at a separate meeting of the holders of shares in that class.

(h) Preference shares

UMG may issue preference shares (including preference shares which are, or at the option of UMG or the holder are, liable to be redeemed or convertible to UMG Shares). The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of UMG.

(i) **Winding up**

Subject to the UMG Constitution, the Corporations Act and any preferential rights attaching to any class or classes of UMG shares, UMG Shareholders will be entitled on a winding up to a share in any surplus assets of UMG in proportion to the UMG Shares they hold.

If UMG is wound up, the liquidator may, with the sanction of a special resolution of UMG shareholders, divide the whole or part of UMG's property among UMG Shareholders and decide how the division is to be carried out as between UMG Shareholders or different classes of UMG shareholders.

(j) **Unmarketable parcels**

In accordance with the ASX Listing Rules, the UMG Board may sell UMG Shares that constitute less than a marketable parcel by following the procedures set out in the UMG Constitution. A marketable parcel of UMG Shares is defined in the ASX Listing Rules and is generally a holding of UMG Shares with a market value of not less than \$500.

(k) **Proportional takeover provisions**

The UMG Constitution requires UMG Shareholder approval in relation to any proportional takeover bid. Subject to the Corporations Act, these provisions will cease to apply unless they are renewed by UMG Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

(l) **UMG Directors – appointment and removal**

Under the Constitution, the UMG Board is comprised of a minimum of three UMG Directors and a maximum of 12 UMG Directors, unless UMG Shareholders pass a resolution varying that maximum number at a general meeting. UMG Directors are elected or re-elected at general meetings of UMG.

No UMG Director (excluding the managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The UMG Board may also appoint a UMG Director in addition to the existing UMG Directors or to fill a casual vacancy on the UMG Board, and that Director (apart from the managing director) will then hold office until the conclusion of UMG's next annual general meeting.

(m) **Directors – voting**

Questions arising at a meeting of the UMG Board must be decided by a majority of votes cast by the UMG Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting does not have a second or casting vote.

A written resolution of the UMG Board may be passed without holding a meeting of the UMG Board if all of the eligible UMG Directors sign or consent to the resolution.

(n) **Directors – Remuneration**

Under the Constitution, the UMG Board may decide the remuneration from UMG to which each UMG Director is entitled for his or her services as a UMG Director. However, the total amount provided to all non-executive UMG Directors for their services as non-executive UMG Directors must not exceed in aggregate in any financial year the amount fixed by UMG shareholders in a general meeting. The current maximum aggregate sum of non-executive UMG Directors is \$1,500,000 (inclusive of superannuation). The remuneration of a UMG Director must not include a commission on, or a percentage of, profits or operating revenue.

UMG Directors may be paid for travel and other expenses incurred in attending to UMG affairs, including attending and returning from meetings of UMG Directors or UMG Board committees or general meetings. Any UMG Director who devotes special attention to the business of UMG or who

performs services which, in the opinion of the UMG Board, are outside the scope of ordinary duties of a UMG Director, may be remunerated for the services (as determined by the UMG Board) out of the funds of UMG.

Details of the remuneration of the UMG Directors are set out in Section 2.13

(o) Power and duties of UMG Directors

The business and affairs of UMG are to be managed by or under the direction of the UMG Board, which (in addition to the specific powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within UMG's power and the powers that are not required by law or by the UMG Constitution to be exercised by UMG in a general meeting.

(p) Indemnities

UMG may indemnify directors or officers (or, if determined by the UMG Directors, auditors) of UMG to the extent permitted by law against all losses or liabilities incurred by that person as a director, officer or auditor of UMG or of a Related Body Corporate.

UMG may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each director or officer (or, if determined by the UMG Directors, auditors) of UMG against any liability incurred by that person as a director, officer or auditor of UMG or of a related body corporate, including but not limited to, liability for negligence or for reasonable legal costs incurred in defending a proceeding brought against that person.

(q) Access to records

UMG may enter into contracts with current or former directors, officers (or, if determined by UMG Directors, auditors) of UMG that cover rights of access to UMG's books in accordance with the Corporations Act or otherwise by law in relation to the indemnity or indemnity insurance provisions of UMG's Constitution.

(r) Amendment

UMG's Constitution may only be amended by a special resolution passed by UMG Shareholders at a general meeting.

7.8 Equity capital structure of GrainCorp

As at the date of this Demerger Scheme Booklet, GrainCorp has 228,855,628 GrainCorp Shares on issue and 657,518 GrainCorp Performance Rights.

7.9 Equity capital structure of UMG

Based on the number of GrainCorp Shares on issue as at the date of this Demerger Scheme Booklet and on the assumption that all GrainCorp Performance Rights issued under the FY18 LTI award vest and are settled by issuing new GrainCorp Shares (see Section 5.7(b)(i) for more information), it is expected that, immediately following implementation of the Demerger, UMG will have 255,014,607 UMG Shares on issue and no other equity securities on issue.

7.10 Substantial GrainCorp Shareholders

As at the Last Practicable Trading Date, the following persons had notified GrainCorp that they had voting power in 5% or more of GrainCorp Shares:

Name	Number of GrainCorp Shares	% of GrainCorp Shares on issue
Ellerston Capital	33,382,431	14.6%
Perpetual Limited	32,369,968	14.1%

Name	Number of GrainCorp Shares	% of GrainCorp Shares on issue
Dimensional Entities	13,742,579	6.0%
Vanguard Group	11,493,404	5.0%

The shareholdings listed in this Section 7.10 are as disclosed to GrainCorp by the GrainCorp Shareholders in substantial holding notices. Information regarding substantial holdings that arise, change or cease after the date of the substantial holding notices disclosed to GrainCorp, or in respect of which the relevant announcement is not available on the ASX's website (www.asx.com.au), is not included above.

7.11 Demerger transaction costs

As described in Section 1.4(b), the total one-off transaction costs of the Demerger are estimated to be approximately \$49 million, of which approximately \$43 million will be incurred by GrainCorp and \$6 million will be incurred by UMG. Of these transaction costs:

- approximately \$20 million were incurred in the period to 30 September 2019;
- \$15 million are expected to be incurred in the period from 1 October 2019 up to the time of the Meetings; and
- \$14 million are expected to be incurred after the Meetings (and are conditional on the Demerger Resolutions being approved by the Requisite Majorities at the Meetings).

As described in Section 3.13(j)(ii), these one-off transaction costs relate to a range of activities and include costs incurred in preparing for and implementing the Demerger and separating UMG from GrainCorp. GrainCorp estimates these transactions costs will be as follows:

- advisory fees of \$28 million, including:
 - a maximum of \$14 million in fees payable to GrainCorp's and UMG's financial advisers; and
 - \$14 million in other advisory fees, including financial and accounting due diligence, tax, legal and other advisory costs relating to the Demerger; and
- \$21 million of restructuring costs and other costs relating to the implementation of the Demerger and the separation of UMG from GrainCorp (including costs associated with establishing new debt facilities for GrainCorp and UMG).

These costs are estimates and the actual costs incurred by GrainCorp and/or UMG may differ from these estimates, and the difference may be significant.

7.12 Regulatory relief, confirmations and waivers

(a) ASIC relief

(i) ASIC relief in respect of secondary sales of UMG Shares

ASIC has granted an exemption from the resale provisions in sections 707(5) and 707(6) of the Corporations Act to permit UMG Shares to be freely on-sold in the 12 months following their transfer under the Demerger (irrespective of whether those UMG Shares were transferred to Demerger Participants or to the Sale Agent). Specifically, the exemption applies where:

- after the Demerger, a holder of UMG Shares makes an offer of UMG Shares for sale and the offer relates to UMG Shares that were transferred as consideration under the Demerger within the previous 12 months;
- under the Demerger Scheme, the UMG Shares were transferred without disclosure under Part 6D.2 of the Act because of subsection 708(17) of the Corporations Act;

- (C) the offer is not made within 12 months of a sale or transfer of the UMG Shares by a person (other than GrainCorp) who:
- (1) Controls UMG;
 - (2) would have been required by subsection 707(2) of the Corporations Act to give disclosure to investors under Part 6D.2 but for section 708 of the Corporations Act; and
 - (3) did not give disclosure to investors under Part 6D.2 because of section 708 of the Corporations Act.

ASIC's relief instrument states that the condition described in Section 7.12(a)(i)(C) above is not intended to prevent the person who Controls GrainCorp referred to in that paragraph from relying on the exemption from the disclosure requirements under Part 6D.2 of the Corporations Act in section 708A of the Corporations Act.

(ii) *ASIC relief in respect of operation of Sale Facility*

ASIC has granted an exemption from certain requirements that GrainCorp may otherwise be required to comply with in order to operate the Sale Facility, including:

- (A) section 601ED of the Corporations Act in relation to the Sale Facility; and
- (B) divisions 2 to 5 of Part 7.9 of the Corporations Act in relation to an interest in the Sale Facility.

ASIC has also confirmed that GrainCorp does not need to comply with Division 5A of Part 7.9 of the Corporations Act to the extent that GrainCorp invites an Ineligible Foreign Holder and/or a Selling Small Shareholder to make an offer to sell their UMG Shares through the Sale Facility.

(iii) *ASIC relief in relation to deferred settlement trading in UMG Shares*

ASIC has granted relief of the type set out in section 1020B(7H) of the Corporations Act (inserted by ASIC Corporations (Short Selling) Instrument 2018/745) such that the UMG Shares may commence trading on a deferred settlement basis before the transfer of the UMG Shares to GrainCorp Shareholders (or the Sale Agent, in the case of Selling Shareholders) on the Demerger Implementation Date.

(iv) *Other ASIC relief in relation to content of Demerger Scheme Booklet*

Clause 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations requires this Demerger Scheme Booklet to disclose particulars of any payment or benefit that is proposed to be made or given to any director, secretary or executive officer of GrainCorp or a related body corporate of GrainCorp (**Relevant GrainCorp Person**) as compensation for the loss of office, or as consideration for or in connection with his or her retirement from office. This would require GrainCorp to disclose particulars of all payments or benefits to which a Relevant GrainCorp Person would be entitled in relation to their loss of office or retirement, including any payments or benefits which are not connected in any way to the Demerger.

ASIC has granted GrainCorp relief from this requirement such that this Demerger Scheme Booklet is not required to disclose particulars of payments or benefits which may be made to a Relevant GrainCorp Person in relation to their loss of office or retirement from office, unless the Relevant GrainCorp Person will lose office or retire from office as a consequence of, or in connection with, the Demerger.

(v) *ASIC order relieving UMG from half year financial reporting requirements*

Section 302 of the Corporations Act requires a disclosing entity to prepare and lodge with ASIC a half year financial report and directors' report. Section 306 provides that a disclosing entity must prepare a half year directors' report. ASIC Corporations (Disclosing Entities) Instrument 2016/190 relieves a disclosing entity from the requirement to prepare and lodge a half year financial report and directors' report during the first financial year of the entity (as opposed to the first financial year as a disclosing entity), where that first financial year lasts for 8 months or less.

ASIC has granted UMG relief from the requirement to prepare and lodge a half year financial report and directors' report, for the half year ending on 31 March 2020, on the condition that:

- (A) UMG gives a notice to ASX, on or before the deadline for lodging the half year financial report and directors' report which would have been required to be prepared pursuant to section 302 of the Corporations Act but for the order from ASIC, which explains the effect of the order and states that UMG intends to rely on it; and
- (B) UMG explains the effect of the order from ASIC and states that it relied on this order in the directors' report for the financial year ending on 30 September 2020.

(b) ASX confirmations and waivers

ASX has provided:

- (i) in-principle confirmation that, for the purposes of ASX Listing Rule 1.1, condition 3, UMG may issue an information memorandum that complies with the requirements of ASX Listing Rule 1.4 on the condition that the information memorandum incorporates parts of the Demerger Scheme Booklet, rather than a prospectus for the purposes of its admission to the Official List;
- (ii) in-principle confirmation that GrainCorp's audited accounts for FY18 and FY19 may be used for the purpose of UMG's admission to the Official List under the "assets test" in the ASX Listing Rules;
- (iii) confirmation that ASX Listing Rule 6.23.2 does not apply to any cancellation of performance rights issued under the FY19 LTI (as described in Section 5.7(b)(ii));
- (iv) confirmation that ASX Listing Rule 7.22.6 does not apply to the Demerger;
- (v) confirmation that ASX Listing Rule 10.1 does not apply to the transfer of UMG Shares to any of the persons listed in ASX Listing Rule 10.1 under the Demerger;
- (vi) confirmation that the ASX does not consider that the Demerger requires additional GrainCorp Shareholder approval for the purposes of ASX Listing Rule 11.1 or ASX Listing Rule 11.2; and
- (vii) in-principle confirmation that the ASX will grant a waiver from ASX Listing Rule 4.2A to the extent necessary to permit UMG to not lodge with ASX a half year report and Appendix 4D for the half year ending 31 March 2020.

ASX has also granted a waiver:

- (i) in respect of ASX Listing Rule 6.23.2 to the extent necessary to permit the cancellation of deferred rights granted under the FY18 STI held by employees of GrainCorp who will become employees of UMG (as described in Section 5.7(a));
- (ii) in respect of ASX Listing Rule 6.23.4 to the extent necessary to permit the performance period attached to the performance rights granted under the FY18 LTI to be amended to allow for early testing (as described in Section 5.7(b)(i)); and

- (iii) in respect of ASX Listing Rule 10.14 from the requirement to seek shareholder approval for the issue of performance rights under the transitional LTI and FY20 LTI (as described in Section 2.14(b)(iii)) to the new Managing Director and Chief Executive Officer of UMG.

7.13 Consents

The following parties have given, and have not withdrawn before the time of registration of this Demerger Scheme Booklet by ASIC, their written consent to be named in this Demerger Scheme Booklet in the form and context in which they are named:

- Gilbert + Tobin as legal adviser to GrainCorp and UMG;
- Macquarie Capital as financial adviser to GrainCorp;
- Credit Suisse as financial adviser to GrainCorp;
- Grant Samuel as Independent Expert;
- PwCS as Investigating Accountant;
- KPMG as taxation adviser to GrainCorp and UMG;
- Link Market Services as the GrainCorp Registry and UMG Registry;
- PwC as auditor (as described below);
- Brewers Association (in respect of statements made by, or attributed to, Brewers Association, as set out in this Demerger Scheme Booklet); and
- Daniel Huvet (in respect of statements made by, or attributed to, D. Huvet Consulting, as set out in this Demerger Scheme Booklet).

The Independent Expert has also given, and has not withdrawn before the time of registration of this Demerger Scheme Booklet by ASIC, its written consent to the inclusion of its Independent Expert's Report in this Demerger Scheme Booklet in the form and context in which it is included and to all references in this Demerger Scheme Booklet to that report in the form and context in which they appear.

The Investigating Accountant has also given, and has not withdrawn before the time of registration of this Demerger Scheme Booklet by ASIC, its written consent to the inclusion of its Investigating Accountant's Report in this Demerger Scheme Booklet in the form and context in which it is included. PwCS takes no responsibility for any part of this Demerger Scheme Booklet, other than the Investigating Accountant's Report and any reference to its name.

PwC has given, and has not withdrawn before the time of registration of this Demerger Scheme Booklet with ASIC, its written consent to be named as auditor in this Demerger Scheme Booklet. PwC takes no responsibility for any part of this Demerger Scheme Booklet other than any reference to its name.

7.14 Disclaimers

None of the persons referred to in Section 7.13 above have authorised or caused the issue of this Demerger Scheme Booklet and do not make or purport to make any statement in this Demerger Scheme Booklet, other than those statements made in the capacity and to the extent the person has provided its consent, as referred to above. To the maximum extent permitted by law, each person referred to in Section 7.13 disclaims all liability in respect of, makes no representation regarding and takes no responsibility for, any part of this Demerger Scheme Booklet other than as described in this Section with that person's consent.

7.15 Foreign selling restrictions

The distribution of this Demerger Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. GrainCorp disclaims all liabilities to such persons. GrainCorp Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed. No action has been taken to register or qualify this Demerger Scheme Booklet or any aspect of the acquisition in any jurisdiction outside of Australia. This Demerger Scheme Booklet does not constitute an offer of UMG Shares in any jurisdiction in which it would be unlawful. In particular, this Demerger Scheme Booklet may not be distributed to any person, and the UMG Shares may not be offered or sold, in any country outside Australia except to the extent provided below.

(a) The Bahamas

This Demerger Scheme Booklet is not available for distribution to the public in The Bahamas, nor are the UMG Shares being publicly offered in The Bahamas. This Demerger Scheme Booklet is not directed to persons resident in The Bahamas other than GrainCorp Shareholders with registered addresses in The Bahamas, and any other use, distribution or transmission in or into The Bahamas is unauthorised.

Neither this Demerger Scheme Booklet nor any other offering or marketing material relating to the UMG Shares have been or will be registered or filed with or approved by any regulatory authority in The Bahamas.

(b) Canada

The UMG Shares will be transferred by GrainCorp in reliance upon exemptions from the prospectus and registration requirements of the applicable Canadian securities law in each province and territory of Canada.

No securities commission in Canada has reviewed or in any way passed upon this document or the merits of the Demerger.

(c) Germany

The UMG Shares will be transferred by GrainCorp based on the Demerger Scheme and without consideration. The transfer of UMG Shares is therefore not considered an offering of securities. Consequently, no prospectus has been, or will be, filed with or approved by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) and this Demerger Scheme Booklet does not constitute a prospectus under German law.

GrainCorp has arranged a Sale Facility as described more fully in this Demerger Scheme Booklet. Nothing in this Demerger Scheme Booklet shall constitute a solicitation of business on the part of the brokerage firm with whom GrainCorp has arranged the Sale Facility. This Demerger Scheme Booklet has been prepared solely by GrainCorp and shall not be interpreted as any offer of financial services on behalf of any brokerage firm. The possibility to participate in the Sale Facility requires that GrainCorp Shareholders contact the brokerage firm at their own initiative.

(d) Hong Kong

WARNING - The contents of this Demerger Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Demerger. If you are in any doubt about any of the contents of this Demerger Scheme Booklet, you should obtain independent professional advice.

This Demerger Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Demerger Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Demerger Scheme Booklet in Hong Kong, other than to persons who are “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this Demerger Scheme Booklet or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this Demerger Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this Demerger Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of GrainCorp Shareholders in connection with the Demerger, and no steps have been taken to register or seek authorisation for the issue of this Demerger Scheme Booklet in Hong Kong.

This Demerger Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Demerger Scheme Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Demerger Scheme Booklet to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Demerger by the person to whom this Demerger Scheme Booklet is addressed.

(e) Isle of Man

No offer or invitation to subscribe for UMG Shares may be made to the public in the Isle of Man.

(f) New Zealand

This Demerger Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). The distribution of UMG Shares under the Demerger Scheme is being made to existing GrainCorp Shareholders in reliance on the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and, accordingly, this Demerger Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

(g) United Kingdom

Neither this Demerger Scheme Booklet nor any other document relating to the Demerger has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus

(within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the UMG Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the transfer of the UMG Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to GrainCorp or UMG. In the United Kingdom, this Demerger Scheme Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be distributed or directed within the circumstances described in Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as "Relevant Persons").

The investment to which this Demerger Scheme Booklet relates is available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Demerger Scheme Booklet or any of its contents.

(h) United States

This Demerger Scheme Booklet has not been filed with, or reviewed by, the US Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Demerger or the accuracy, adequacy or completeness of the Demerger Scheme Booklet. Any representation to the contrary is a criminal offence.

The UMG Shares have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. No offer of UMG Shares is being made in any US state or other jurisdiction where it is not legally permitted to do so.

GrainCorp Shareholders resident in the US should note that the Demerger is made of securities of an Australian company in accordance with the laws of Australia and the listing rules of the Australian Securities Exchange. The Demerger is subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since GrainCorp and UMG are located in Australia and most of its officers and directors are residents of Australia. You may not be able to sue their respective officers or directors in Australia for violations of the US securities laws. It may be difficult to compel GrainCorp and UMG to subject themselves to a US court's judgment.

7.16 Other information material to the making of a decision in relation to the Demerger

Except as set out in this Demerger Scheme Booklet, so far as the GrainCorp Directors are aware, as at the date of this Demerger Scheme Booklet, there is no other information material to the making of a decision in relation to the Demerger, being information that is within the knowledge of any GrainCorp Director as at the date of this Demerger Scheme Booklet which has not previously been disclosed to GrainCorp Shareholders.

7.17 Continuous disclosure and supplementary information

If GrainCorp becomes aware of any of the following between the date of lodgement of this Demerger Scheme Booklet for registration with ASIC and the Second Court Hearing:

- a material statement in this Demerger Scheme Booklet is false or misleading;
- a material omission from this Demerger Scheme Booklet;
- a significant change affecting a matter in this Demerger Scheme Booklet; or
- a significant new matter has arisen, and it would have been required to be included in this Demerger Scheme Booklet if GrainCorp was aware of the matter at the date of lodgement with ASIC,

depending on the nature and timing of the changed circumstances, and subject to obtaining any relevant approvals, GrainCorp may circulate and publish any supplementary document to this Demerger Scheme Booklet by:

- making an announcement to the ASX;
- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- issuing a supplementary document to this Demerger Scheme Booklet to GrainCorp Shareholders; or
- posting a statement on GrainCorp's website at <http://www.demerger.graincorp.com.au>.

Any updated information about the Demerger which is not materially adverse to GrainCorp Shareholders is likely to be made available by announcement to ASX and on GrainCorp's website (<http://www.demerger.graincorp.com.au>). Where updated information about the Demerger is materially adverse to GrainCorp Shareholders, a supplementary document will be issued and made available in accordance with regulatory requirements.

SECTION 8

Glossary

In this Demerger Scheme Booklet, unless the context otherwise requires:

\$, A\$ or AUD means Australian dollars unless otherwise stated.

AAS has the meaning given to that term in Section 2.17(b).

AASB has the meaning given to that term in Section 2.17(b).

ACCC means the Australian Competition and Consumer Commission.

Annual General Meeting means the Annual General Meeting of GrainCorp Shareholders to be held at 10:00am (Sydney time) on Wednesday, 19 February 2020.

ANZ means Australia and New Zealand.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

ASX Listing means admission of UMG to the Official List and Official Quotation of the UMG Shares on ASX.

ASX Listing Rules means the official listing rules, from time to time, of ASX.

ASX Operating Rules means the market operating rules of ASX as amended, varied or waived from time to time.

ASX Recommendations has the meaning given to that term in Section 2.12(b).

ASX Settlement means ASX Settlement Pty Ltd (ACN 008 504 532).

Australian Bulk Liquid Terminals Business means the bulk liquid storage and handling business operated in Australia by GrainCorp Liquid Terminals Australia Pty Ltd (ACN 001 849 805), which was a wholly-owned subsidiary of GrainCorp until completion of the Bulk Liquid Terminals Sale.

BBMC means Barrett Burston Malting Co Pty Ltd (ACN 050 142 526), a wholly-owned subsidiary of GrainCorp which will be a member of the UMG Post-Demerger Group.

Bulk Liquid Terminals Sale means the sale of all of the shares in GrainCorp Liquid Terminals Australia Pty Ltd (ACN 001 849 805) (which owns and operates the Australian Bulk Liquid Terminals Business) to ANZ Terminals, which completed on 31 December 2019.

Business Day has the meaning given to that term in the ASX Listing Rules.

CAGR means compound annual growth rate.

Capital Reduction means the reduction in the capital of GrainCorp by the Capital Reduction Amount, with such aggregate amount to be divided and applied equally against each GrainCorp Share on issue as at the Demerger Scheme Record Date in accordance with the terms of the Capital Reduction Resolution.

Capital Reduction Amount means the aggregate amount of the capital of GrainCorp that is to be reduced in accordance with the terms of the Capital Reduction Resolution, calculated as follows:

$$\text{Capital Reduction Amount} = \text{GSCA} \times (\text{MMV} / (\text{MMV} + \text{GMV}))$$

where:

GSCA = the GrainCorp Share Capital Amount;

MMV = the UMG Market Value; and

GMV = the GrainCorp Market Value.

Capital Reduction Entitlement means, in relation to a Demerger Participant, the Capital Reduction Amount, divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date, then multiplied by the number of GrainCorp Shares held by the Demerger Participant on the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Capital Reduction Resolution means the resolution to approve the Capital Reduction to be put to GrainCorp Shareholders at the General Meeting, as set out in the Notice of General Meeting at Attachment F.

CGT has the meaning given to that term in Section 6.3.

CHES means the Clearing House Electronic Subregister System, which provides for electronic share transfers in Australia and is operated by ASX Settlement.

Commissioner has the meaning given to that term in Section 6.2.

Conditions Precedent means the conditions precedent to the Demerger Scheme becoming Effective, as summarised in Section 5.2(a) and set out in full in the Demerger Scheme at Attachment C.

Control has the meaning given to that term in section 50AA of the Corporations Act and Controlled has the corresponding meaning.

Corporations Act means the Corporations Act 2001 (Cth), as amended from time to time.

Corporations Regulations means the Corporations Regulations 2001 (Cth) (Australia).

Court means the Federal Court of Australia.

Court Approval Condition means the Condition Precedent described in Section 5.2(a)(vii).

Credit Suisse means Credit Suisse (Australia) Limited (ABN 94 007 016 300).

Crop Production Contract has the meaning given to that term in Section 3.6(c).

CY means calendar year.

Delivery Time means 2 hours before the commencement of the Second Court Hearing (or, if the commencement of the Second Court Hearing is adjourned, the commencement of the adjourned Second Court Hearing).

Demerger means the demerger of UMG from GrainCorp to be implemented by the Demerger Scheme on the terms of the Demerger Transaction Documents.

Demerger Amendment has the meaning given to that term in Section 2.17(h)(i) or Section 3.13(k), as the context requires.

Demerger Deed means the demerger deed between GrainCorp and UMG dated 13 January 2020 and described in Section 5.10(b).

Demerger Deed Poll means the deed poll dated 13 January 2020 executed by UMG and attached as Attachment D, under which UMG has undertaken in favour of Demerger Participants to take certain steps in respect of the implementation of the Demerger Scheme.

Demerger Distribution means, together, the Capital Reduction and the Demerger Dividend.

Demerger Distribution Amount means an amount equal to the UMG Market Value.

Demerger Distribution Entitlement means, in relation to a Demerger Participant, the aggregate of that Demerger Participant's Demerger Dividend Entitlement and Capital Reduction Entitlement.

Demerger Dividend means the special dividend of an amount per GrainCorp Share which is equal to the Demerger Dividend Amount divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Demerger Dividend Amount means an amount equal to the Demerger Distribution Amount less the Capital Reduction Amount.

Demerger Dividend Entitlement means, in relation to each Demerger Participant, the Demerger Dividend Amount, divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date, then

multiplied by the number of GrainCorp Shares held by the Demerger Participant on the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Demerger Entitlement means the entitlement of each GrainCorp Shareholder to UMG Shares under the Demerger, being, in relation to a GrainCorp Shareholder, one UMG Share for each GrainCorp Share held by that GrainCorp Shareholder as at the Demerger Scheme Record Date.

Demerger Implementation Date means the date on which the Demerger is implemented, which is currently expected to be Wednesday, 1 April 2020.

Demerger Participant means each person registered in the GrainCorp Register as the holder of a GrainCorp Share as at the Demerger Scheme Record Date.

Demerger Principle has the meaning given to that term in Section 5.9(a).

Demerger Resolutions means the Demerger Scheme Resolution and the Capital Reduction Resolution.

Demerger Scheme means a members' scheme of arrangement pursuant to Part 5.1 of the Corporations Act between GrainCorp and the Demerger Participants, on the terms set out in Attachment C, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and consented to by GrainCorp and UMG.

Demerger Scheme Booklet means this Demerger Scheme Booklet.

Demerger Scheme Implementation Deed means the demerger scheme implementation deed between GrainCorp and UMG dated 13 January 2020 and described in Section 5.10(a).

Demerger Scheme Meeting means the meeting of GrainCorp Shareholders ordered by the Court, to consider and vote on the Demerger Scheme Resolution.

Demerger Scheme Meeting Proxy Form means the proxy form for the Demerger Scheme Meeting.

Demerger Scheme Record Date means the time and date for determining entitlements to UMG Shares under the Demerger, which is currently expected to be 7:00pm (Sydney time) on Wednesday, 25 March 2020.

Demerger Scheme Resolution means the resolution to approve the Demerger Scheme at the Demerger Scheme Meeting as set out in the Notice of Demerger Scheme Meeting at Attachment E.

Demerger Tax Relief has the meaning given to that term in Section 6.2.

Demerger Transaction Documents means the key documents required to give effect to the Demerger, being the Demerger Scheme, the Demerger Deed Poll, the Demerger Deed, Demerger Scheme Implementation Agreement, Transitional Services Agreements and the Pinkenba Property Arrangements Deed, summaries of which are set out in Section 5.10.

EBIT means earnings before interest and taxes.

ECA has the meaning given to that term in Section 3.1.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) of the Corporations Act in relation to the Demerger Scheme.

Effective Date means the date on which the Demerger Scheme become Effective, which is currently expected to be Monday, 23 March 2020.

Eligible GrainCorp Shareholder means a GrainCorp Shareholder whose registered address on the GrainCorp Register as at the Demerger Scheme Record Date is in one of the following jurisdictions:

- (a) Australia and its external territories;
- (b) Bahamas;

- (c) Canada;
- (d) Germany;
- (e) Hong Kong;
- (f) Isle of Man;
- (g) New Zealand;
- (h) the United Kingdom;
- (i) the United States; or
- (j) a jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder.

FY means financial year.

FY12 means the financial year that ended on 30 September 2012.

FY13 means the financial year that ended on 30 September 2013.

FY14 means the financial year that ended on 30 September 2014.

FY15 means the financial year that ended on 30 September 2015.

FY16 means the financial year that ended on 30 September 2016.

FY17 means the financial year that ended on 30 September 2017.

FY18 means the financial year that ended on 30 September 2018.

FY19 means the financial year that ended on 30 September 2019.

Geelong Service Agreement has the meaning given to that term in Section 5.10(f).

General Meeting means the meeting of GrainCorp Shareholders to be convened to consider and vote on the Capital Reduction Resolution.

General Meeting Proxy Form means the proxy form for the General Meeting.

German Malt Plants has the meaning given to that term in Section 2.17(b).

GrainCo Australia means GrainCo Australia Pty Limited (ACN 070 878 241), a wholly-owned subsidiary of GrainCorp which will be a member of the UMG Group.

GrainCorp means GrainCorp Limited (ACN 057 186 035; ASX: GNC).

GrainCorp Board means the board of directors of GrainCorp.

GrainCorp Business means the businesses operated by GrainCorp as at the date of this Demerger Scheme Booklet (other than the UMG Business), as described in Section 3.

GrainCorp Directors or **Your Directors** means the directors of GrainCorp.

GrainCorp Market Value means the VWAP of GrainCorp Shares for the first five Business Days starting from the date of the commencement of trading (whether on a normal or deferred settlement basis) of UMG Shares on the ASX, multiplied by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date.

GrainCorp Operations means GrainCorp Operations Limited (ACN 003 875 401), a wholly-owned subsidiary of GrainCorp which will be a member of the GrainCorp Post-Demerger Group.

GrainCorp Performance Right means a right to be issued or transferred one GrainCorp Share for no consideration on the terms of GrainCorp's LTI plan described in Section 5.7.

GrainCorp Post-Demerger Facilities means the debt facilities described in Section 3.13(k).

GrainCorp Post-Demerger Group means GrainCorp and its Subsidiaries immediately after implementation of the Demerger.

GrainCorp Post-Demerger Pro Forma Historical Financial Information has the meaning given to that term in Section 3.13(a).

GrainCorp Post-Demerger Pro Forma Historical Segment Information means the pro forma historical financial information in respect of GrainCorp set out in Section 3.13(g).

GrainCorp Pre-Demerger Group means GrainCorp and its Subsidiaries before implementation of the Demerger (which includes the UMG Group).

GrainCorp Register means the register of GrainCorp Shareholders maintained by or on behalf of GrainCorp in accordance with the Corporations Act.

GrainCorp Registry means Link Market Services in its capacity as provider of registry services in respect of the GrainCorp Register.

GrainCorp Share means a fully paid ordinary share in GrainCorp.

GrainCorp Share Capital Amount means the balance of GrainCorp's share capital account immediately before the Demerger Implementation Date.

GrainCorp Shareholder means a person who is registered in the GrainCorp Register as the holder of a GrainCorp Share.

GrainCorp to UMG Transitional Services Agreement means the transitional services agreement between GrainCorp and UMG, under which GrainCorp will provide certain transitional services to UMG after the Demerger, as described in Section 5.10(d)(i).

GrainsConnect Canada has the meaning given to that term in Section 3.4(a)(ii).

Grant Samuel means Grant Samuel & Associates Pty Limited (ACN 050 036 372).

IFRS has the meaning given to that term in Section 2.17(b).

Independent Expert means Grant Samuel.

Independent Expert's Report means the report of the Independent Expert in relation to the Demerger, a copy of which is at Attachment A.

Ineligible Foreign Holder means a Demerger Participant who is not an Eligible GrainCorp Shareholder.

Information Claim means a claim by a third party arising from, or in connection with, the Demerger Scheme Booklet, the information memorandum to be issued by UMG in connection with the ASX Listing or certain other material published or distributed in connection with the Demerger:

- (a) being misleading or deceptive in any respect (whether by omission or otherwise);
- (b) failing to comply with any applicable legal requirement (including the ASX Listing Rules); or
- (c) breaching certain warranties given by UMG to the ASX as part of the ASX Listing regarding the accuracy and completeness of information provided to the ASX.

Investigating Accountant means PwCS.

Investigating Accountant's Report means the report of the Investigating Accountant in relation to the Demerger, a copy of which is at Attachment B.

IPO has the meaning given to that term in Section 1.2(c).

JV means joint venture.

KPMG means KPMG (ABN 51 194 660 183).

Last Practicable Trading Date means Friday, 31 January 2020, being the last practicable trading date before the date of this Demerger Scheme Booklet.

LTI has the meaning given to that term in Section 5.7.

Link Market Services means Link Market Services Limited (ACN 083 214 537).

Macquarie Capital means Macquarie Capital (Australia) Limited (ACN 123 199 548).

Meetings means the Demerger Scheme Meeting and the General Meeting.

Notice of Demerger Scheme Meeting means the notice in relation to the Demerger Scheme Meeting, a copy of which is at Attachment E.

Notice of General Meeting means the notice in relation to the General Meeting, a copy of which is at Attachment F.

NPAT means net profit after tax.

Official List means the Official List of the ASX.

Official Quotation means the quotation of UMG Shares on the Official List.

Pinkenba Assets has the meaning given to that term in Section 5.10(e).

Pinkenba Barley Handling Agreement has the meaning given to that term in Section 5.10(e).

Pinkenba Freehold Land has the meaning given to that term in Section 5.10(e).

Pinkenba Property Arrangements Deed means the arrangement between GrainCorp and UMG described in Section 5.10(e).

Pinkenba Tenure Arrangements has the meaning given to that term in Section 5.10(e).

Port Kembla Terminal means the bulk liquid storage terminal located at Port Kembla, NSW, which as GrainCorp announced to the ASX on 15 November 2019, was excluded from the Bulk Liquid Terminals Sale (and retained by GrainCorp) to address competition concerns that the ACCC had about port-side bulk liquid storage in NSW.

Portfolio Review has the meaning given to that term in Section 1.2(b).

PwC means PricewaterHouseCoopers (ABN 52 780 433 757).

PwCS means PricewaterhouseCoopers Securities Ltd (ACN 003 311 617).

Related Body Corporate has the meaning given to that term in the Corporations Act.

Requisite Majority means:

- (a) in relation to the Demerger Scheme Resolution to be put to GrainCorp Shareholders at the Demerger Scheme Meeting, the resolution being passed by:
 - (i) a majority in number (more than 50%) of GrainCorp Shareholders who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
 - (ii) at least 75% of the votes cast on the resolution by GrainCorp Shareholders, who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
- (b) in relation to the Capital Reduction Resolution to be put to GrainCorp Shareholders at the General Meeting, the resolution being passed by at least 50% of the votes cast on the resolution by GrainCorp Shareholders who are present and voting at the General Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative.

Restructure means the internal restructure required to establish UMG as a standalone ASX-listed entity undertaken by GrainCorp, as described in Section 5.3(a).

Retained UMG Shareholding means GrainCorp's minority ownership interest of 10% of the UMG Shares on issue immediately following the Demerger, as described in Section 3.6(a).

Sale Agent means the nominee appointed by GrainCorp to sell the UMG Shares to which Selling Shareholders would otherwise be entitled in accordance with the terms of the Sale Facility.

Sale Facility means the facility under which Selling Shareholders' UMG Shares will be sold, as described in Section 5.6(c).

Sale Facility Election means a valid election not to receive UMG Shares and to participate in the Sale Facility made by a Small Shareholder.

Sale Facility Election Form means the form to be completed and lodged online or returned to the GrainCorp Registry by Small Shareholders who wish to participate in the Sale Facility instead of receiving UMG Shares.

Sale Facility Election Time means 5:00pm on Monday, 23 March 2020.

Sale Facility Election Withdrawal Form means the form to be completed and returned to the GrainCorp Registry by a Small Shareholder who wishes to withdraw a Sale Facility Election.

Sale Facility Proceeds means the proceeds from the sale of a Selling Shareholder's UMG Shares under the Sale Facility, calculated on an averaged basis so that all Selling Shareholders receive the same price for each UMG Share sold by the Sale Agent on their behalf.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Demerger Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Selling Shareholder means a Selling Small Shareholder or an Ineligible Foreign Holder.

Selling Small Shareholder means a Small Shareholder who has made a valid Sale Facility Election.

Small Shareholder means an Eligible GrainCorp Shareholder who individually holds 500 or fewer GrainCorp Shares as at the Demerger Scheme Record Date.

Stay-in-business capex spend means spend typically required to maintain operations and includes safety and compliance spend.

STI has the meaning given to that term in Section 5.7.

Subsidiary has the meaning given to that term in the Corporations Act.

TFR means total fixed remuneration.

Transitional Services Agreements means the GrainCorp to UMG Transitional Services Agreement and the UMG to GrainCorp Transitional Services Agreement.

UCO means used cooking oil.

UK means United Kingdom.

UMG means:

- (a) United Malt Group Limited; or
- (b) United Malt Group Limited, together with its Subsidiaries following the Demerger,

as the context requires.

UMG Board means the board of directors of UMG.

UMG Business means the business operated by UMG as at the date of this Demerger Scheme Booklet, as described in Section 2.

UMG Constitution means the constitution of UMG, the material terms of which are summarised in Section 7.7.

UMG Directors means the directors of UMG.

UMG Facilities has the meaning given to that term in Section 2.17(i).

UMG Group means United Malt Group Limited, together with its Subsidiaries following the Demerger.

UMG Information has the meaning given to that term in Section 5.10(b)(iii)(A).

UMG Market Value means the VWAP of UMG Shares for the first five Business Days starting from the date of the commencement of trading (whether on a normal or deferred settlement basis) of UMG Shares on the ASX, multiplied by the number of UMG Shares on issue immediately after implementation of the Demerger.

UMG Pro Forma Historical Financial Information has the meaning given to that term in Section 2.17(a).

UMG Pro Forma Historical Segment Information means the pro forma historical financial information in respect of UMG set out in Section 2.17(e).

UMG Register means the register of UMG Shareholders maintained by or on behalf of UMG in accordance with the Corporations Act.

UMG Registry means Link Market Services in its capacity as provider of registry services in respect of the UMG Register.

UMG Share means a fully paid ordinary share in UMG.

UMG Shareholder means a person who is registered in the UMG Register as the holder of a UMG Share.

UMG to GrainCorp Transitional Services Agreement means the transitional services agreement between GrainCorp and UMG, under which UMG will provide certain transitional services to GrainCorp after the Demerger, as described in Section 5.10(d)(ii).

United Malt Group Limited means United Malt Group Limited (ACN 140 174 189).

Underlying NPAT means Net Profit After Tax before Significant Items (Significant Items are items not in the ordinary course of business, non-recurring and material in nature and amount).

US means United States of America.

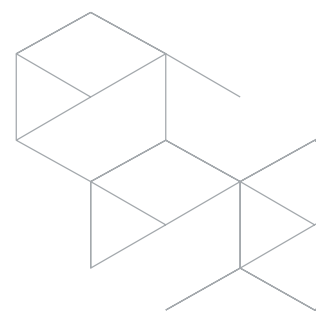
VWAP means the volume weighted average price of the relevant shares traded on ASX during the relevant period but does not include any trades which GrainCorp determines to be outside the ordinary course of trading, which may include any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over such shares.

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ATTACHMENT A

Independent Expert's Report

GRANT SAMUEL



6 February 2020

The Directors
GrainCorp Limited
Level 28
175 Liverpool Street
Sydney NSW 2000

Dear Directors

Proposed Demerger

1 Introduction

On 4 April 2019, GrainCorp Limited ("GrainCorp") announced its intention to demerge its global malting business into a separate company listed on the Australian Securities Exchange ("ASX") (the "Proposed Demerger").

The Proposed Demerger is to be effected by a scheme of arrangement between GrainCorp and its shareholders. Completion of the following steps is required to implement the Proposed Demerger:

- an internal restructure whereby GrainCorp's wholly owned subsidiary, United Malt Group Limited ("UMG"), will hold all the businesses, assets and liabilities of the global malting business and be capable of operating on a standalone basis;
- conversion of UMG into a public company, with approximately 254.3 million shares on issue¹;
- restructuring of GrainCorp's debt facilities to provide separate facilities for UMG and the ongoing business of GrainCorp² ("New GrainCorp");
- distribution of 90% of the issued share capital in UMG to GrainCorp shareholders by way of a demerger distribution (comprising a combination of capital return and a demerger dividend) on the basis of one UMG share for each GrainCorp share. GrainCorp will continue to hold a 10% interest in UMG; and
- application to the ASX for UMG to be listed on the ASX.

The Proposed Demerger requires the approval of GrainCorp shareholders in relation to the scheme of arrangement and the capital reduction. The resolutions to be voted on by GrainCorp shareholders are interdependent. If either resolution is not approved, the Proposed Demerger will not proceed.

The directors of GrainCorp have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposed Demerger is in the best interests of GrainCorp shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the capital reduction associated with the Proposed Demerger materially prejudices GrainCorp's ability to pay its creditors. A copy of the report (including this letter) will accompany the Demerger Scheme Booklet to be sent to shareholders by GrainCorp. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Demerger Opinion

In Grant Samuel's opinion, the Proposed Demerger is in the best interests of GrainCorp shareholders.

¹ A small number of additional shares may be issued under various employee incentive schemes.

² GrainCorp will retain its other business operations (Grains and Oils) and remain listed on the ASX. The ongoing entity is referred to in this report as "New GrainCorp".

GRANT SAMUEL & ASSOCIATES PTY LIMITED

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3 Summary and Conclusions

Since its origin, the primary factor influencing the earnings and cash flows of GrainCorp has been the size of the annual grain harvest in New South Wales and the broader East Coast Australia region. The prevailing climatic conditions, particularly the susceptibility to drought, mean that the annual harvest can be volatile. This volatility has also been a primary driver of GrainCorp's share price since listing in 1998.

In response, GrainCorp developed a strategy to expand and diversify its business with the objective of creating a more stable earnings base with long term growth potential. To this end, it has:

- extended operations throughout the international wheat supply chain, including downstream processing; and
- acquired businesses that handled two adjacent grain products (barley and canola) and were focussed on downstream processing (malt, edible oils).

The strategy has been very successful in terms of the original objective of creating a more diversified and stable total income stream. However:

- GrainCorp's share price performance has continued to be materially impacted by Australian grain harvest levels, albeit less than in earlier periods;
- the diversification, in and of itself, did not eliminate the inherent volatility of the core grain business; and
- despite the apparent cohesiveness of the two segments of the business, GrainCorp Grains & Oils³ and GrainCorp Malt have very different characteristics including geographic base of operations, marketing construct, distribution channels, growth outlook and capital intensity. As a consequence:
 - GrainCorp Malt effectively operates on an autonomous basis and makes little use of the GrainCorp network;
 - there are minimal operating synergies between the two business units; and
 - there have been some constraints on the ability of GrainCorp Malt to pursue growth opportunities as a result of the impact of drought affected grain harvests on GrainCorp's free cash flows and borrowing capacity.

In early 2017, GrainCorp began a process of examining options for the ownership and operation of its business and as a result:

- the Australian Bulk Liquid Terminals business has been sold;
- there have been further initiatives to improve the operating efficiency and reduce the volatility of the non malt businesses (e.g. merging GrainCorp Grains and GrainCorp Oils, business simplification, international sourcing and new rail contracts);
- the Crop Production Contract⁴ has been put in place to eliminate (or at least materially reduce) GrainCorp's exposure to the impact of severe downturns in the East Coast Australia crop harvest (with the offset being some loss of upside when bumper harvests occur and an increase in operating costs from the annual premium); and
- the board and management have explored a wide range of structural ownership options including:
 - outright or partial sale of individual business units to third party acquirers or through an initial public offering;

³ See Section 3.2 of the full report for a description of these businesses.

⁴ This refers to the 10 year agreement with White Rock Insurance (SAC) Ltd, a subsidiary of Aon plc, to manage the risk associated with the volatility of the eastern Australian grain production. See Section 3.2 of the full report for further details.

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- separation or sale of infrastructure-like assets;
- joint ventures and mergers;
- strategic acquisitions;
- demergers; and
- continuation of the status quo.

Ultimately, the board settled on the Proposed Demerger as the preferred structural option and the one most likely to deliver the best value for shareholders over time. Specifically:

- it enables shareholders to retain their economic interests in all the businesses and potentially capture the upside from recent initiatives that are expected to be realised over the next 2-3 years. At the same time, they have the ability to change their exposures between the two demerged businesses;
- with the Crop Production Contract in place and a low level of core debt, GrainCorp Grains & Oils is a more viable standalone entity;
- options such as the potential sale of either business (e.g. through a takeover offer) are preserved, if not enhanced;
- no tax liabilities are triggered. The Proposed Demerger does not give rise to the tax drawbacks of alternatives such as outright sale (which could result in a large unfranked dividend component for any consequent distributions) and capital gains tax concessions for shareholders should remain achievable in any subsequent transaction (e.g. a takeover of UMG); and
- a demerger is not dependent on third parties and is under the control of the company. It can be progressed with a high degree of certainty.

The Proposed Demerger is definitionally fair in so far as shareholders (except ineligible overseas shareholders) will hold exactly the same underlying economic interests in the business before and after the proposal is implemented. Evaluation of whether or not the Proposed Demerger is in the best interests of shareholders therefore involves subjective judgements about the benefits such as management focus, financial and strategic flexibility and opportunities for value enhancement weighed against the costs, disadvantages and risks, rather than analysis of quantifiable financial or other verifiable factors.

There are a number of advantages and benefits of the Proposed Demerger (which are common for most demergers) including:

- increased strategic and financial flexibility. In particular, UMG:
 - will be able to determine its own financial structure reflecting the strength of its own attributes (stable earnings, strong cash flows, expansion potential); and
 - will be better able to pursue strategic opportunities by offering its own scrip (which will be more attractive to vendors or merger partners than GrainCorp scrip);
- increased prospects of capturing a premium for control through a takeover offer for either company but particularly UMG;
- greater board and management focus and enhanced ability to provide targeted management incentives that are directly related to business under the management team's control;
- flexibility for shareholders to choose their level of exposure to either the GrainCorp Grains & Oils business (i.e. New GrainCorp) or the GrainCorp Malt business (i.e. UMG) as they see fit; and
- higher dividends in due course as UMG and New GrainCorp propose higher payout ratios (60% and 50-70% of underlying NPAT respectively) than GrainCorp's current policy (40-60% of underlying NPAT). The aggregate level of franking should also be substantially the same as under the status quo.

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These advantages are not individually compelling but, collectively, are meaningful.

Value analysis of the two new entities is inherently uncertain, particularly given the lack of direct peers and the recent track record of GrainCorp Grains. However, relative to GrainCorp's recent share price trading range of around \$8.00 there does seem to be some value upside potential immediately following the Proposed Demerger. Even if that does not occur, the benefits outlined above should lead to value enhancement over time compared to the status quo.

At the same time, there are a number of disadvantages, costs and risks arising from the Proposed Demerger. The more significant include:

- reduced size and diversity which means each entity will be less able to absorb the consequences of adverse events as they will have a greater relative impact. At the same time:
 - both entities have relatively modest financial leverage;
 - UMG enjoys consistent underlying demand, stable earnings and low capital intensity; and
 - New GrainCorp is increasing the variability of its cost base and the Crop Production Contract provides an important degree of protection against poor harvests;
- the smaller size of the two separate entities should, other things being equal, lead to higher borrowing costs (in terms of margins). However, the margins for the restructured facilities as part of the Proposed Demerger are not in overall terms materially different to current GrainCorp margins;
- additional corporate and operating costs (circa \$14.9 million per annum for UMG and \$1.6 million for New GrainCorp). On the other hand, New GrainCorp expects to save \$20 million per annum through restructuring and simplification of the existing GrainCorp head office as a result of the Proposed Demerger;
- increased risk of either entity falling out of the key S&P/ASX 200 index (the current cut off is a market capitalisation of approximately \$700 million). This risk is particularly acute for New GrainCorp but ultimately it will depend on future operational performance of the business among other factors. Demergers also typically lead to some level of register realignment in the months following implementation but in GrainCorp's case there are reasons to believe this should be relatively modest. Indeed, there are strong prospects of significant new demand for shares in UMG from agribusiness and food/drink investors who may have previously been deterred by GrainCorp's significant (and volatile) grains and oils businesses. UMG will be the only significant pure malt business listed on any major stock exchange globally;
- the lack of track record of the board and management teams in working together. However, there is a significant degree of continuity through the Chairmen and directors of both entities and the CEO of UMG;
- transition and implementation risks; and
- one off transaction and implementation costs which are estimated to be approximately \$49 million.

These disadvantages, costs and risks are not trivial but are not major drawbacks.

The evaluation of the Proposed Demerger is essentially subjective as the benefits are not quantifiable or testable. The benefits are, at least to some extent, a matter of perception. The Proposed Demerger is not a guarantee of future performance. The question is whether shareholders are likely to realise greater value over time if the Proposed Demerger is implemented than if GrainCorp's current structure is maintained. In Grant Samuel's view, the potential benefits of the Proposed Demerger outweigh the potential costs, disadvantages and risks. Shareholders are likely to be better off if the Proposed Demerger proceeds. Accordingly, Grant Samuel has concluded that the Proposed Demerger is in the best interests of GrainCorp shareholders.

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4 Creditors Opinion

In Grant Samuel's opinion, the capital reduction associated with the Proposed Demerger does not materially prejudice GrainCorp's ability to pay its existing creditors.

5 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual GrainCorp shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Demerger Scheme Booklet issued by GrainCorp in relation to the Proposed Demerger.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Demerger, the responsibility for which lies with the directors of GrainCorp. In any event, the decision whether to vote for or against the Proposed Demerger is a matter for individual shareholders, based on their own views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in GrainCorp, New GrainCorp or UMG. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Demerger. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

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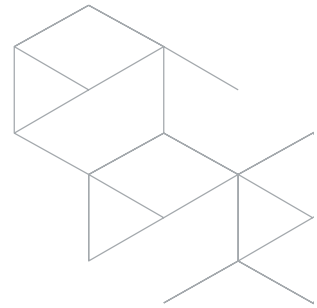


FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE PROPOSED DEMERGER OF
UNITED MALT GROUP LIMITED
BY GRAINCORP LIMITED

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372

6 FEBRUARY 2020

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FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 (Cth) ("Corporations Act") requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for GrainCorp in relation to the proposed separation of United Malt Group Limited ("UMG") from GrainCorp Limited ("GrainCorp") ("the GrainCorp Report"), Grant Samuel will receive a fixed fee of \$525,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the GrainCorp Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the GrainCorp Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the GrainCorp Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with GrainCorp or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Demerger. Grant Samuel advises that it was engaged by GrainCorp and prepared an independent expert's report dated 24 June 2013 in relation to the takeover offer by Archer Daniels Midland Company.

Grant Samuel had no part in the formulation of the Proposed Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposed Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Australian Financial Complaints Authority, No. 11929. If you have any concerns regarding the GrainCorp Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Australian Financial Complaints Authority at GPO Box 3 Melbourne VIC 3001 or 1800 931 678. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act.

Grant Samuel is only responsible for the GrainCorp Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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1 Details of the Proposed Demerger

On 4 April 2019, GrainCorp Limited ("GrainCorp") announced its intention to demerge its international malting business into a separate company listed on the Australian Securities Exchange ("ASX") (the "Proposed Demerger"). Following delays caused by various issues, including obtaining approval of the sale of GrainCorp's Australian Bulk Liquid Terminals business from the Australian Competition and Consumer Commission ("ACCC"), the Proposed Demerger is now planned to occur in the first half of 2020.

The Proposed Demerger is to be effected by a scheme of arrangement between GrainCorp and its shareholders. Completion of the following steps is required to implement the Proposed Demerger:

- an internal restructure whereby GrainCorp's wholly owned subsidiary, United Malt Group Limited ("UMG"), will hold all the businesses, assets and liabilities of the international malting business and be capable of operating on a standalone basis;
- conversion of UMG into a public company, with approximately 254.3 million shares on issue¹;
- restructuring of GrainCorp's debt facilities to provide separate facilities for UMG and the ongoing business of GrainCorp;
- distribution of 90% of the issued share capital in UMG to GrainCorp shareholders by way of a demerger distribution (comprising a combination of capital return and a demerger dividend²) on the basis of one UMG share for each GrainCorp share. GrainCorp will continue to hold a 10% interest in UMG³; and
- application to the ASX for UMG to be listed on the ASX.

GrainCorp will retain its other business operations and remain listed on the ASX. The ongoing entity is referred to in this report as "New GrainCorp".

The effect of the Proposed Demerger is that GrainCorp shareholders (other than ineligible overseas shareholders⁴ and selling shareholders⁵) will hold an equal number of shares in UMG and New GrainCorp.

Ineligible overseas shareholders and selling shareholders will not receive UMG shares. Such shareholders will receive in cash the proceeds (on an averaged basis) from the sale on the ASX of the UMG shares to which they would otherwise have been entitled, free of any brokerage costs or stamp duty (but excluding any interest and after deducting any applicable withholding tax).

Holders of GrainCorp shares or rights over GrainCorp shares pursuant to employee incentive plans operated by GrainCorp will participate in the Proposed Demerger depending on the nature and status of each plan and whether the holder will be a UMG or New GrainCorp employee following implementation of the Proposed Demerger⁶. Existing entitlements may also be adjusted to reflect the impact of the Proposed Demerger on the value of shares. New schemes will also be established for employees of New GrainCorp and UMG.

The Proposed Demerger requires GrainCorp shareholders to approve the following resolutions:

¹ A small number of additional shares may be issued under various employee incentive schemes.

² The split between the capital return and the distribution dividend will not be determined until after the Second Court Hearing as it is determined by share prices of the respective entities over a five day trading period prior to the Effective Date.

³ 25.4 million shares being 254.3 million shares on issue less 228.9 million shares distributed to GrainCorp shareholders.

⁴ GrainCorp shareholders with registered addresses outside Australia (or any of its external territories), the Bahamas, Canada, Germany, Hong Kong, Isle of Man, New Zealand, United Kingdom and United States of America or any other jurisdiction in which GrainCorp believes it is not prohibited or unduly onerous or impractical to issue UMG shares ("ineligible overseas shareholders") will not receive UMG shares.

⁵ GrainCorp shareholders holding 500 shares or fewer can elect to have all the UMG shares that they would otherwise receive under the Proposed Demerger sold on the ASX via a share sale facility.

⁶ For details see Section 5.7 of the Demerger Scheme Booklet.

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- a members scheme of arrangement resolution under Section 411 of the Corporations Act, 2001 (“the Corporations Act”). Under Section 411, a scheme of arrangement must be approved by a majority in number (i.e. more than 50%) of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. The scheme of arrangement is then subject to approval by the Federal Court of Australia; and
- an ordinary resolution to approve the capital reduction pursuant to Section 256C(1) of the Corporations Act.

The resolutions to be voted on by GrainCorp shareholders are interdependent. If either resolution is not approved, the Proposed Demerger will not proceed.

The Proposed Demerger also requires satisfaction of a number of conditions precedent, including no termination of the scheme implementation deed entered into between GrainCorp and UMG, regulatory approvals and listing approval.

If the Proposed Demerger is approved and implemented, New GrainCorp and UMG will operate independently of each other apart from the following arrangements:

- a Demerger Deed, which deals with certain commercial, legal and transitional issues to facilitate the demerger of UMG from GrainCorp and the establishment of UMG as a separate corporate group;
- Transitional Services Agreements, which sets out the terms on which:
 - New GrainCorp will provide UMG with various services covering information technology (“IT”), payroll, finance, office space and other corporate services; and
 - UMG will provide certain human resources support, office space and other corporate services to New GrainCorp.

This agreement will cover a transitional period of approximately 12 months as those services migrate to, or are replicated by UMG and New GrainCorp. All services provided under the Transitional Services Agreement will be charged at cost.

- the Pinkenba Property Arrangement, which provides New GrainCorp with certain lease arrangements to storage sheds held by UMG for an expected period of 50 years;
- the Pinkenba Barley Handling Agreement, which sets out certain barley handling services provided by New GrainCorp to UMG;
- the Geelong Arrangement, which sets out grain elevation services and site access that New GrainCorp will provide to UMG at the Port of Geelong on an ongoing basis.

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2 Scope of the Report

2.1 Purpose of the Report

The Proposed Demerger is subject to the approval of GrainCorp shareholders in accordance with:

- Sections 256B and 256C of the Corporations Act ("Sections 256B and 256C"); and
- Section 411 of the Corporations Act ("Section 411").

Sections 256B and 256C and Section 411 govern reductions of share capital and schemes of arrangement, respectively. They require the prior approval of shareholders before a capital reduction or scheme of arrangement can be implemented. Sections 256B and 256C do not require an independent expert's report to be prepared.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in these circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of GrainCorp have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposed Demerger is in the best interests of GrainCorp shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the capital reduction associated with the Proposed Demerger materially prejudices GrainCorp's ability to pay its creditors. A copy of the report will accompany the Demerger Scheme Booklet to be sent to shareholders by GrainCorp.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual GrainCorp shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Demerger Scheme Booklet issued by GrainCorp in relation to the Proposed Demerger.

Voting for or against the Proposed Demerger is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in GrainCorp (pre or post demerger) or UMG. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Demerger. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by

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scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8).

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG111 also states that where a demerger or demutualisation involves one or more of a change in the underlying economic interests of shareholders, a change of control or selective treatment of different shareholders, an expert might need to consider whether using the “fair” and “reasonable” tests is appropriate.

The Proposed Demerger is not a control transaction. Accordingly, Grant Samuel has evaluated the Proposed Demerger by assessing the overall impact on the shareholders of GrainCorp and formed a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result. By definition, if the advantages outweigh the disadvantages, shareholders are likely to be better off if the Proposed Demerger is implemented than if it is not.

In forming its opinion as to whether the Proposed Demerger is in the best interests of GrainCorp shareholders, Grant Samuel has considered the following:

- the impact on business operations if the demerger proceeds including any strategic implications;
- the impact on earnings and dividends attributable to existing shareholders;
- the effect of the demerger on financial position of each entity and their financial risk profiles;
- the likely impact on the market value of shareholders’ interests and the market for shares in the demerged companies generally;
- any other advantages and benefits arising from the Proposed Demerger; and
- any disadvantages, risks and costs of the Proposed Demerger.

In forming its opinion as to whether the capital reduction materially prejudices GrainCorp’s ability to pay its creditors, Grant Samuel has considered the following:

- the effect of the capital reduction on the financial position and size of New GrainCorp and UMG;
- the impact of the capital reduction on the credit metrics of New GrainCorp and UMG; and
- the debt facilities available to New GrainCorp and UMG after the capital reduction.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

- the Demerger Scheme Booklet (including earlier drafts);
- annual reports of GrainCorp for the six years ended 30 September 2019;
- press releases, public announcements, media and analyst presentation material and other public filings by GrainCorp including information available on its website;
- brokers’ reports and recent press articles on GrainCorp;

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- sharemarket data and related information on selected Australian and international listed companies engaged in the agribusiness and food processing industries; and
- other confidential documents, board papers, presentations and working papers provided by GrainCorp.

In preparing this report, Grant Samuel has:

- held discussions with, and obtained information from, senior management of GrainCorp and its advisers; and
- had no access to internal forecast financial information for GrainCorp, New GrainCorp or UMG.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by GrainCorp and its advisers. Grant Samuel has considered and relied upon this information. GrainCorp has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposed Demerger in the best interests of GrainCorp shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of GrainCorp. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

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The information provided to Grant Samuel included pro forma financial information for GrainCorp, New GrainCorp and UMG:

- for the four years ended 30 September 2019 in relation to financial performance and cash flow statements; and
- as at 30 September 2019 in relation to financial position.

GrainCorp is responsible for the pro forma financial information. The pro forma financial information was subject to review by the Investigating Accountant, PricewaterhouseCoopers Securities Ltd ("PwC"). The Investigating Accountant's Independent Limited Assurance report is set out in Attachment B to the Demerger Scheme Booklet. On this basis, Grant Samuel considers there are reasonable grounds to believe that the pro forma financial information as presented in the Demerger Scheme Booklet has been prepared on a reasonable basis.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by GrainCorp and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Proposed Demerger are accurate and complete;
- the information set out in the Demerger Scheme Booklet sent by GrainCorp to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposed Demerger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposed Demerger are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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3 Profile of GrainCorp

3.1 Corporate History

The New South Wales Grain Handling Authority (the antecedents of which can be traced to 1916) was corporatised in 1989 and the business was sold to GrainCorp by the New South Wales Government in 1992. At that time, GrainCorp was 100% owned by Grain Growers Association Limited ("GGA") (known at the time as Prime Wheat Association Limited) and was focussed on the wheat sector. Following a corporate restructure in September 1993, GGA was issued Class A shares, Class B shares and a Foundation Share in GrainCorp. Class A shares were also offered to grain growers and other investors. In March 1998, GrainCorp's Class A shares were listed on the ASX on the condition that shareholders were to vote on the retention of the Foundation Share every five years.

Over the next decade, GrainCorp pursued a number of growth initiatives to become the largest provider of grain (primarily wheat)⁷ storage, logistics and port services in eastern Australia including the October 2000 merger with Victorian Grain Services Limited and the October 2003 acquisition of Grainco Australia Limited. Its structure was also simplified by the cancellation of GGA's Class B shares in August 2001 and elimination of the Foundation Share in February 2008.

GrainCorp commenced a broadening of its business with the establishment of Allied Mills in October 2002 (a 60:40 joint venture with Cargill) to acquire the flour milling and mixing assets of Goodman Fielder Limited ("Goodman Fielder"). The deregulation of Australian bulk wheat exports in July 2008 provided the opportunity for GrainCorp to broaden further its services to international consumers, management of rail haulage services and value added grain handling services. GrainCorp also sought to add value to grain and reduce earnings variability by extending into other grain products (barley, oilseeds) and into additional downstream processing activities (malt and edible oils). To this end, GrainCorp established:

- GrainCorp Malt in November 2009 following the acquisition of United Malt Holdings, the fourth largest commercial malt manufacturer globally. This business has subsequently expanded both organically and by acquisition; and
- GrainCorp Oils in October 2012 following the separate acquisitions of the privately owned Gardner Smith Group and Goodman Fielder's Integro Foods. These two businesses had an annual oilseed crushing capacity of 300,000 tonnes and edible fats and oils refining and packaging capacity of 280,000 tonnes per annum. Gardner Smith Group's assets included a portfolio of 13 bulk liquid port terminals that became the Australian Bulk Liquid Terminals business.

By 2013, GrainCorp was operating an integrated "end to end" grains handling, marketing and processing business focussed on three dry climate grains (wheat, barley and canola)⁸ in Australasia, North America and Europe. Although its business remained subject to fluctuations in harvest levels and commodity prices, the diversification across several grains and geographies reduced the variability of GrainCorp's aggregate earnings. It had also commenced a program of business improvement initiatives to strengthen, integrate and grow its business platform and improve its customer offering (targeting incremental EBITDA of ~\$110 million per annum by the end of FY16⁹).

On 22 October 2012, GrainCorp announced that Archer Daniels Midland Company ("ADM") had acquired a 14.9% interest in GrainCorp and made a conditional proposal to acquire the remaining shares for \$11.75 cash per share. The GrainCorp board advised ADM on 15 November 2012 that its proposal materially

⁷ The broader grains sector comprises cereals (wheat, barley, oats, corn, rice etc.), pulses (beans, lentils, chickpeas, other peas etc.) and oilseeds (canola, sunflower, rapeseed, linseed etc.).

⁸ GrainCorp also handles and markets other grains and non-grain commodities (e.g. sorghum and pulses).

⁹ FYXX is financial year end 30 September 20XX (i.e. FY16 is the year ending 30 September 2016). HYXX is half year end 31 March 20XX (i.e. HY19 or 1HY19 is the six months ended 31 March 2019 while 2HY19 is the six months to 30 September 2019).

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undervalued GrainCorp. On 3 December 2012, ADM acquired an additional 5% interest and made a revised conditional proposal at \$12.20 cash per share. The GrainCorp board also rejected this proposal.

Following a period of negotiation, GrainCorp announced on 26 April 2013 that it had entered into a takeover bid implementation deed under which ADM would make a conditional off-market takeover offer for all of the shares in GrainCorp that it did not already own (80.1%) at a price of \$13.20 cash per share (including dividends paid by GrainCorp totalling \$1.00 per share) (the "ADM Offer"). However, the ADM Offer was subject to a number of conditions including no objections under the Foreign Acquisitions and Takeovers Act, 1975. On 29 November 2013, the Federal Treasurer issued an order prohibiting ADM from acquiring 100% of GrainCorp and, on 2 December 2013, ADM withdrew its offer¹⁰.

Under a new Chief Executive Officer from October 2014, GrainCorp demonstrated the effectiveness of its diversification strategy in challenging operating conditions over the FY15-FY16 period while focusing on executing the business improvement initiatives commenced in 2012 and announced in the first half of 2014¹¹.

In June 2016, GrainCorp re-iterated its strategy to manage earnings volatility, improve returns and deliver growth from its integrated business model in order to drive shareholder value. Under this strategy, key initiatives undertaken or commenced by GrainCorp have included:

- creation of a single grains business unit ("GrainCorp Grains") by combining its Storage & Logistics and Marketing businesses (in August 2017) and subsequently merging this unit with its GrainCorp Oils business (announced April 2019);
- expansion of its international grain origination capability by:
 - establishing GrainsConnect Canada, a 50-50 joint venture with Japanese agricultural co-operative Zen-Noh Grain Corporation, to build and operate grain receival sites across Alberta and Saskatchewan, Canada;
 - securing port access by investing (via GrainsConnect Canada) in the Fraser Grain Terminal at the Port of Vancouver, Canada; and
 - opening offices in Ukraine and India.
- simplification of the eastern Australian operating structure of GrainCorp Grains by streamlining supply chain, planning, operations, customer and commercial management functions to reduce costs and enable more focussed and relevant customer services (announced November 2018);
- increased investment in GrainCorp Malt including:
 - a major expansion of its Pocatello, Idaho malting plant increasing capacity by 120,000 tonnes per annum to 220,000 tonnes per annum (completed in September 2017);
 - a 79,000 tonne per annum expansion of its malting capacity in Scotland including an upgrade of the Arbroath plant and construction of a new malting plant at Inverness (to be completed in 2021); and
 - the acquisition of Cryer Malt, the largest distributor of craft brewing ingredients in Australia and New Zealand;

¹⁰ ADM retained its 19.9% interest in GrainCorp until it was sold via an underwritten sale process at \$8.53 per share on 2 December 2016.

¹¹ Including:

- a \$125 million investment in the edible oils business including expansion and upgrade of the Numurkah oilseeds site and the West Footscray food processing plant and closure of the Murarrie food processing site;
- a \$70 million 65,000m³ expansion of bulk liquid storage capacity at three locations (Brisbane, Port Kembla, Fremantle); and
- Project Regeneration, a \$200 million investment in the East Coast Australia country grain storage network, focussed on reducing complexity and providing better services. Key work streams included consolidation to around 180 receival sites, configuring the network into 34 clusters, optimisation of rail and elevation services and improvements in rail loading processes and infrastructure.

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- the sale of:
 - its 60% interest in Allied Mills in March 2017; and
 - its Australian Bulk Liquid Terminals business for \$333 million (announced 4 March 2019 and completed on 31 December 2019)¹²; and
- entering into a 10 year agreement with White Rock Insurance (SAC) Ltd, a subsidiary of Aon plc, to manage the risk associated with the volatility of the eastern Australian grain production ("Crop Production Contract").

On 3 December 2018, GrainCorp announced that it had received a non-binding, indicative proposal from Long-Term Asset Partners Pty Ltd ("LTAP") under which LTAP would acquire 100% of the shares in GrainCorp by way of a scheme of arrangement for \$10.42 cash per share. The GrainCorp board engaged with LTAP including providing access for due diligence. However, on 6 May 2019, LTAP advised GrainCorp that it was unable to proceed with its proposal.

3.2 Current Business Operations and Strategy

Today, GrainCorp is an international agribusiness with a diverse range of grain acquisition, storage, handling, marketing and processing operations. Through its integrated "end to end" supply chain, it markets grain (primarily wheat) to local and international markets and is a buyer of barley and oilseeds for its malt and edible oils businesses. It is an ASX 200 company with a market capitalisation of around \$1.8 billion.

GrainCorp is currently organised into two operating businesses, GrainCorp Grains & Oils and GrainCorp Malt. The relative earnings contribution of each business primarily depends on the earnings of GrainCorp Grains & Oils which historically has fluctuated significantly from year to year (see Section 3.3). The operating businesses are described in detail in Sections 2 and 3 of the Demerger Scheme Booklet and summarised below:

GRAINCORP – OPERATING BUSINESSES¹³

BUSINESS	DESCRIPTION
GRAINCORP GRAINS & OILS	<p>An "end-to-end" grains and oils business including:</p> <ul style="list-style-type: none"> • an integrated storage, handling and trading business for cereal grains, oilseeds and pulses comprising: <ul style="list-style-type: none"> - storage facilities, rail and road operations and bulk grain ports in East Coast Australia - origination and marketing teams positioned across the world in Australia, Europe (Germany, Ukraine), United Kingdom, Canada and Asia (India, China, Singapore) • production of edible oils in Australasia for use in a wide range of food and animal feed products <p>50% interest in GrainsConnect Canada which is building a supply chain network to connect growers in Alberta and Saskatchewan to global markets</p>
GRAINCORP MALT	<p>Fourth largest commercial malt manufacturer globally Operates 13 malting houses across Australia, Canada, the United States and the United Kingdom International business but four distinct business names retained due to long term relationships with regional barley growers and malt customers Generates earnings along the malt supply chain including:</p> <ul style="list-style-type: none"> • barley procurement and handling • malt processing and sale of co-products • distribution and sale of value added malt and related brewing products <p>Customers include global brewers, craft brewers and distillers</p>

¹² On 4 March 2019, GrainCorp originally announced the sale of its Australian Bulk Liquid Terminals to ANZ Terminals Pty Ltd for \$351 million. As a result of the ACCC's review of the transaction and its impact on competition, GrainCorp agreed to retain the Port Kembla Terminal and exclude it from the transaction, thereby reducing the final sale price to \$333 million (including \$19 million of deferred consideration).

¹³ Reflects the sale of Australian Bulk Liquid Terminals and the announced integration of GrainCorp Grains and GrainCorp Oils.

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GrainCorp also incurs corporate overheads including the costs associated with running its head office including group executives, board of directors, group functions (legal, accounting, tax, treasury, assurance, compliance, risk management, information technology, human resources, company secretarial), business development and costs of being a listed company.

GrainCorp's strategy remains to manage earnings volatility while delivering growth and improving returns from its integrated business model. Its strategic priorities to achieve these goals are:

- to strengthen its core businesses;
- to maintain a disciplined approach to capital management; and
- to optimise the portfolio.

Initiatives currently underway in GrainCorp Grains & Oils are expected to deliver increased "through the cycle" EBITDA as summarised below:

GRAINCORP – SUMMARY OF KEY INITIATIVES

BUSINESS	INITIATIVE	STATUS	EXPECTED INCREASE IN EBITDA FROM EXISTING INITIATIVES
GRAINS	Operational improvements in grain stocks management	completed	\$10 million
	Grains cost reduction initiatives	completed	\$15 million
	Variable rail contracts	benefits commencing FY20	\$10 - \$15 million
	ECA supply chain integration and improved asset utilisation	implemented, full benefit from FY20	\$10 - \$20 million
	Expanding international footprint in Canada, Ukraine and India	ongoing	\$10 - \$20 million
	Total		\$55 - \$80 million
OILS	Continuous improvement program and Foods restructure	ongoing	\$5 - \$10 million
	Numurkah crush expansion and crush margin management improvement	ongoing	\$10 - \$15 million
	Total		\$15 - \$25 million
INTEGRATION	Integration of Grains and Oils business	next 6-9 months ¹⁴	\$10 million
	Core business simplification initiatives post-demerger	post demerger	\$10 million
	Total		\$20 million

Source: GrainCorp ASX announcement, 4 April 2019

The recently agreed Crop Production Contract is designed to reduce the earnings and cash flow volatility of GrainCorp Grains & Oils by providing protection against the impact of extremely poor harvest levels while forgoing some of the upside from very strong harvests. The key terms of the contract are as follows:

- the contract takes effect in FY20 (i.e. for the 2019/20 crop);
- a payment of \$15 per tonne (the "Production Payment") will be made for each tonne of actual East Coast Australia winter crop production¹⁵ (as determined by ABARES) in any year that is:

¹⁴ Now combined with business simplification (including head office restructuring) and benefits largely generated post FY19.

¹⁵ As published by the Australian Bureau of Agricultural and Resources Economics and Sciences ("ABARES"). For this purpose, crops include winter crops (wheat, barley, canola, chickpeas, faba/broad beans, field peas, lentils, lupins, oats and triticale) for eastern Australian grain.

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- below 15.3mmt¹⁶: GrainCorp Grains & Oils will receive the Production Payment subject to a maximum of \$80 million; or
- above 19.3mmt: GrainCorp Grains & Oils will pay the Production Payment subject to a maximum of \$70 million,

subject to an aggregate net limit of Production Payment to either party over the ten year term of \$270 million.

Notably, the contract is based on total East Coast Australia crop levels rather than GrainCorp's own throughput so shareholders will still be impacted by GrainCorp Grains & Oils' ability to maintain (or increase) its market share;

- GrainCorp will incur pre-tax annual costs associated with the contract (including an annual premium paid to the counterparty and associated financing costs) of less than \$10 million; and
- the contract is not subject to a right of termination in the event of a change of control of GrainCorp.

The impact of the Crop Production Contract is a small increase in annual operating costs for GrainCorp Grains & Oils (i.e. premium and financing costs) but increased certainty of earnings depending on the magnitude of the East Coast Australia winter crop. To the extent the aggregate crop is between 15.3mmt and 19.3mmt, GrainCorp's Grains earnings will fluctuate in line with actual volumes (as well as other factors).

3.3 Financial Performance

Historical Financial Performance

Historically, GrainCorp's earnings have reflected the level of the East Coast Australia grain crop (particularly wheat) but the level of variability has reduced over time as a result of increased diversification of grains and geographies and the move into downstream processing. The reported financial performance of GrainCorp for the five years ended 30 September 2019 is summarised below:

GRAINCORP - FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER				
	2015	2016	2017	2018	2019
<i>East Coast Australia winter grain crop¹⁵ (mmt)</i>	17.0	17.3	28.2	16.8	7.3
<i>East Coast Australia key commodities¹⁷ (mmt)</i>	18.1	17.9	27.2	16.8	7.9
Sales revenue ¹⁸	4,085.5	4,158.3	4,575.7	4,253.1	4,849.7
EBITDA ¹⁹	226.3	246.2	390.3	270.3	73.9
Share of results of equity accounted investments	9.1	9.3	(0.2)	(1.3)	(5.4)
Underlying EBITDA ²⁰	235.4	255.5	390.1	269.0	68.5
Depreciation and amortisation	(136.3)	(142.6)	(146.4)	(153.2)	(142.4)
Underlying EBIT ²¹	99.1	112.9	243.7	115.8	(73.9)
Net finance costs	(39.0)	(38.2)	(39.0)	(42.2)	(50.1)
Significant items	(16.5)	(32.4)	(20.0)	-	(42.6)

¹⁶ mmt = million metric tonnes; mmtpa = million metric tonnes per annum.

¹⁷ Source: "Australian Crop Report", ABARES, December 2019. This represents a subset of the East Coast Australian grain crop which GrainCorp has historically deemed as key commodities. This includes wheat, barley, canola, chickpeas and sorghum (all winter crops except for sorghum).

¹⁸ Sales revenue is external revenue (i.e. after the elimination of sales between business units) and includes rental income and, in FY15, dividend income (\$0.2 million).

¹⁹ EBITDA is earnings before net interest, tax, depreciation and amortisation, share of results of equity accounted investments and significant items.

²⁰ Underlying EBITDA is earnings before net interest, tax, depreciation and amortisation and significant items.

²¹ Underlying EBIT is earnings before net interest, tax and significant items.

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GRAINCORP - FINANCIAL PERFORMANCE (\$ MILLIONS) (CONTD)

	YEAR ENDED 30 SEPTEMBER				
	2015	2016	2017	2018	2019
Operating profit/(loss) before tax	43.6	42.3	184.7	73.6	(166.6)
Income tax (expense)/benefit	(11.5)	(11.4)	(59.5)	(3.1)	53.6
Operating profit after tax	32.1	30.9	125.2	70.5	(113.0)
Outside equity interests	-	-	-	-	-
NPAT²² attributable to GrainCorp shareholders	32.1	30.9	125.2	70.5	(113.0)
Underlying NPAT²³	44.5	52.7	141.6	70.5	(81.7)
Capital expenditure:					
- Stay in business	68.0	72.0	78.0	55.0	42.0
- Strategic initiatives/growth	168.0	210.0	184.0	87.0	55.0
	236.0	282.0	262.0	142.0	97.1
STATISTICS					
<i>Basic earnings per share</i>	<i>14.0¢</i>	<i>13.5¢</i>	<i>54.7¢</i>	<i>30.8¢</i>	<i>(49.4)¢</i>
<i>Dividends per share</i>	<i>10.0¢</i>	<i>11.0¢</i>	<i>30.0¢</i>	<i>16.0¢</i>	<i>0.0¢</i>
<i>Dividend payout ratio²⁴</i>	<i>51%</i>	<i>48%</i>	<i>48%</i>	<i>52%</i>	<i>0%</i>
<i>Amount of dividend franked</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>--</i>
<i>Interest cover</i>					<i>--</i>
<i>Return on capital</i>					<i>--</i>

Source: GrainCorp and Grant Samuel analysis

In addition to fluctuations on the East Coast Australia crop harvest, analysis of GrainCorp's consolidated financial performance is made difficult by corporate activity including acquisitions, business improvement initiatives and divestments. In this regard, the following factors are important to note for the period presented above:

- the 2016/17 East Coast Australia crop (incorporated in FY17 results) was the largest for over a decade while the 2018/19 crop (FY19) was the smallest since FY08 with minimal grain exports. The fluctuations in the crop levels are mirrored in the earnings of GrainCorp across the period, notwithstanding growth in earnings of GrainCorp Malt;
- on the back of the small 2018/19 crop (7.9mmt), GrainCorp Grains & Oils incurred an EBITDA loss of \$131 million in FY19. International trade disruptions negatively impacted EBITDA, and the continued drought in eastern Australia led to weaker production levels, thereby resulting in lower receipts and unfavourable utilisation of rail contracts and lower export volumes. This was partly offset by strong performance in GrainCorp Malt, which rebounded strongly after a weak first half in FY19 (due to higher freight costs and restricted deliveries in North America);
- the reported financial performance reflects the operating performance of the Schill Malz business (divested in FY17) and Australian Bulk Liquid Terminals (the conditional sale of which was announced on 4 March 2019 and completed on 31 December 2019);
- the share of results of equity accounted investments in FY14-FY16 incorporates GrainCorp's 60% share of the NPAT of Allied Mills (which was sold in March 2017) and, in subsequent years, primarily represents GrainCorp's 50% interest in GrainsConnect Canada;

²² NPAT is net profit after tax.

²³ Underlying NPAT is NPAT before significant items.

²⁴ Calculated by reference to underlying NPAT.

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- depreciation and amortisation has increased across the period reflecting the increase in capital expenditure associated with the business improvement and growth initiatives commenced in 2012 and others announced in the first half of 2014;
- significant items in the period are summarised as follows:

GRAINCORP – REPORTED SIGNIFICANT ITEMS (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER				
	2015	2016	2017	2018	2019
Transaction related costs and integration costs	-	(4.0)	-	-	(35.2)
Restructuring costs	(12.1)	(23.6)	(3.4)	-	(7.4)
Impairment of assets	(4.4)	(6.9)	(20.8)	-	-
Gains on sale of assets	-	2.1	4.2	-	-
Significant items before tax	(16.5)	(32.4)	(20.0)	-	(42.6)
Tax effect (net)	4.1	10.6	3.6	-	11.3
Significant items after tax	(12.4)	(21.8)	(16.4)	-	(31.3)

Source: GrainCorp and Grant Samuel analysis

- GrainCorp also identified abnormal factors totalling \$85 million that adversely impacted FY19 earnings for the GrainCorp Grains & Oils segment, comprising:
 - disruptions to international grain trade flows (\$65 million);
 - drought impacts on “take or pay” rail contracts (\$15 million); and
 - one-off costs (\$5 million).

These abnormal factors were not excluded from underlying EBITDA or EBIT;

- capital investment associated with the strategic initiatives/growth program peaked in FY16 and is winding down. Stay in business capital expenditure has been constrained in FY18 and FY19 in light of the drought conditions in East Coast Australia; and
- GrainCorp’s policy is to pay dividends equal to 40-60% of full year underlying NPAT through the business cycle. On this basis, the payout ratio has been in the middle of that range during the FY14-FY18 period with no dividend declared for FY19.

GrainCorp has elected to apply the new accounting standards for leases (AASB 16²⁵) from 1 October 2019 onwards. As such, no adjustments were needed for the FY19 historical financial statements. GrainCorp has estimated that the new accounting standards will have the effect²⁶ (based on the FY19 accounts) of:

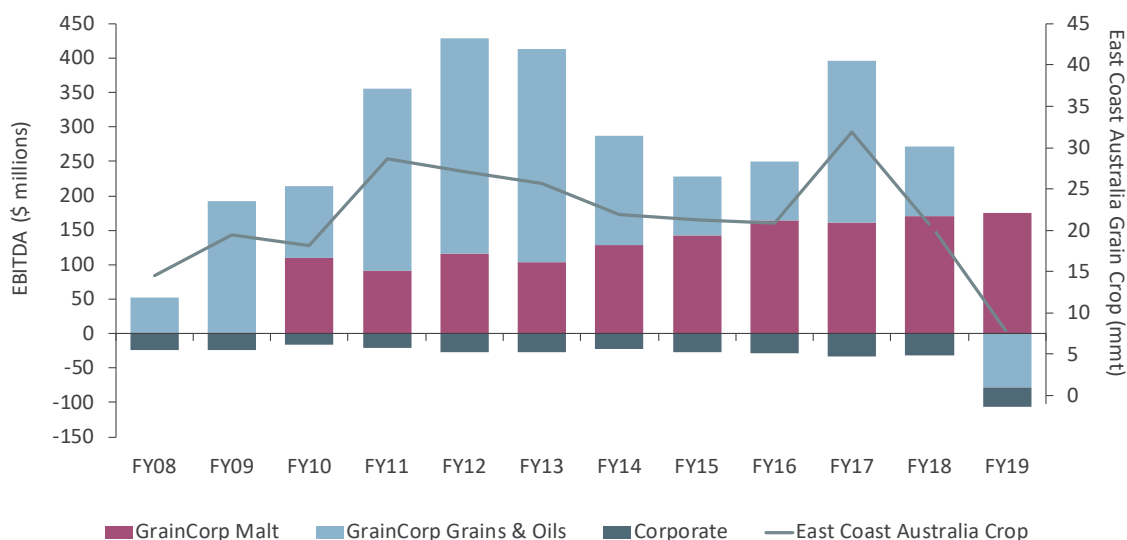
- creating new right of use assets of approximately \$235 million and new lease liabilities of approximately \$230 million;
- reducing occupancy expense by \$33 million per annum; and
- increasing depreciation expense by \$32 million and interest expense by \$8 million per annum.

GrainCorp’s operating performance is best illustrated by reference to the EBITDA contributions of its continuing businesses (GrainCorp Grains & Oils, GrainCorp Malt and Corporate) over the period from FY08 as shown in the following graph:

²⁵ AASB = Australian Accounting Standards Board.

²⁶ Excludes the impact of the sale of Australian Bulk Liquid Terminals which will result in additional leases to be capitalised.

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GRAINCORP – EBITDA CONTRIBUTION BY BUSINESS
 (FY08 – FY19)


Source: GrainCorp and Grant Samuel analysis

- Notes:
- (1) FY10 reflects only a 10.5 month contribution from GrainCorp Malt as United Malt Holdings was acquired in November 2009.
 - (2) GrainCorp Oils (now part of Grains) was established in October 2012 following the acquisition of Gardner Smith Group and Integro Foods.
 - (3) EBITDA by business has been adjusted to exclude:
 - discontinued operations, interest income, other income and non-recurring items which were in reported EBITDA in FY08-FY12; and
 - the earnings of businesses divested in the period, Allied Mills, Schill Malz and Australian Bulk Liquid Terminals.

This graph demonstrates the stability of earnings from GrainCorp Malt since FY10 (despite over 80% of its earnings being subject to foreign currency translation). GrainCorp Malt initially grew by acquisition (in FY10 and FY11) and has generated subsequent earnings growth from expansion in its target markets (particularly in craft brewing and distilling) as well as from operational improvements. In comparison, there have been large swings in GrainCorp Grains & Oils' earnings reflecting the East Coast Australia grain crop notwithstanding:

- the more stable earnings of the Oils business (excluding Australian Bulk Liquid Terminals);
- the substantial expansion of international grain origination capability; and
- the significant investment in business improvement/growth initiatives including network consolidation.

This is because over the same period, earnings volatility has been accentuated by:

- changes in the East Coast Australia grains market (including increased level of on-farm grain storage);
- GrainCorp Grains & Oils' high fixed cost base (e.g. receival sites and export ports);
- the long term "take or pay" rail contracts which only expired at the end of FY19; and
- disruption to grain trading conditions due to international trade tensions.

Outlook

While GrainCorp has not publicly released earnings forecasts for FY20 or beyond, the company has released guidance on its FY20 outlook in the FY19 Earnings Presentation. In summary:

- management provided a mixed outlook across the GrainCorp group. While GrainCorp Malt is expected to sustain earnings growth into the next fiscal year, New GrainCorp's crop volume intake is expected to be below average once again given weak crop forecasts across eastern, western and southern Australia for the 2019/20 season;

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- continued global barley production growth in FY20 due to craft beer demand and growing consumer preference for Scotch whisky is expected to underpin stable demand for malt and brewing ingredients;
- GrainCorp Malt's earnings profile is expected to benefit from operational efficiencies realised from high capacity utilisation of malt plants and expanded distribution networks; and
- while earnings visibility is low for GrainCorp Grains & Oils, the Crop Production Contract and renegotiated rail contracts are expected to hedge the downside earnings exposure.

3.4 Financial Position

The financial position of GrainCorp as at 30 September 2019 is summarised below:

GRAINCORP - FINANCIAL POSITION (\$ MILLIONS)

	AS AT 30 SEPTEMBER 2019 (AUDITED)
Trade and other receivables and derivative financial instruments (net)	696.6
Inventories ²⁷	738.4
Trade and other payables and provisions	(535.7)
Net working capital	899.3
Property, plant and equipment (net)	1,335.2
Intangible assets (net)	471.0
Equity accounted investments	40.5
Investment in other entities	3.5
Assets held for sale (net)	197.8
Deferred tax liabilities (net)	39.7
Other assets and liabilities (non current) (net)	(14.4)
Total funds employed	2,972.6
Cash and deposits	265.3
Borrowings	(1,401.5)
Net borrowings	(1,136.2)
Net assets	1,836.3
Outside equity interests	-
Equity attributable to GrainCorp shareholders	1,836.3
STATISTICS	
Shares on issue at period end (million)	228.9
Net assets per share	\$8.02
NTA ²⁸ per share	\$5.79
Statutory gearing ²⁹	38.2%
Core gearing ³⁰	30.4%

Source: GrainCorp and Grant Samuel analysis

Intangible assets comprise goodwill (primarily relating to the acquisition of United Malt Holdings in November 2009 and Gardner Smith and Integro Foods in October 2012), computer software, trade names and customer relationships. Equity accounted investments primarily represents GrainCorp's 50% interest in GrainsConnect Canada (\$39.5 million). Investments in other entities are recognised at fair value. Assets

²⁷ At 30 September 2019 inventories included \$430.7 million of grain inventory which has been pledged as security for commodity inventory funding.

²⁸ NTA is net tangible assets, which is calculated as net assets less intangible assets (net) plus deferred tax assets/liabilities (net).

²⁹ Statutory gearing is net borrowings divided by net assets plus net borrowings.

³⁰ Core gearing is core borrowings (i.e. net borrowings less commodity inventory) divided by net assets plus core debt.

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held for sale (net) comprises the assets and liabilities of Australian Bulk Liquid Terminals, inclusive of the assets relating to Port Kembla Terminal, and other properties.

GrainCorp uses a range of derivative financial instruments to manage its exposure to various commodity price, foreign currency and interest rate risk. Derivative financial instruments are recognised at fair value. Non current derivative financial instruments (including those associated with borrowings) are shown under other assets and liabilities (non current) (net). As at 30 September 2019, the net derivative balance attributable to borrowings was \$(10) million (i.e. the balance related to trading positions).

GrainCorp operates a number of defined benefit pension plans for some employees of GrainCorp Malt in the United States, Canada, United Kingdom and Australia. The defined benefit plan deficit (\$14.4 million) represents the excess of the present value of defined benefit plan obligations over the fair value of plan assets and is shown under other assets and liabilities (non current) (net).

At 30 September 2019, GrainCorp's net borrowings comprised:

GRAINCORP – NET BORROWINGS AT 30 SEPTEMBER 2019 (\$ MILLIONS)

FACILITY	FACILITY SIZE	AMOUNT DRAWN	TERM/MATURITY
Term debt (unsecured) ³¹	500.0	500.0	March 2023
Term debt (unsecured)	360.0	260.0	November 2022
Commodity inventory funding (secured) ³²	1,196.3	463.6	November 2020
Trade financing (unsecured)	35.0	24.8	November 2020
Working capital (unsecured)	160.0	50.0	November 2020
Working capital (unsecured)	355.0	94.6	November 2020
Finance leases (secured)	8.5	8.5	n/a
Total interest bearing liabilities	2,514.8	1,401.5	
Cash and cash equivalents		(265.3)	
Net borrowings		1,136.2	
Commodity inventory ³²		(334.2)	
Core net borrowings		802.0	

Source: GrainCorp

On 31 December 2019, GrainCorp received proceeds of \$314 million (before associated transaction costs) from the sale of Australian Bulk Liquid Terminals. A further \$19 million is contingent on the satisfaction of certain milestones relating to the extension and commencement of leases agreements on certain terminal sites in future periods.

3.5 Other Financial Items

(i) Taxation

Under the Australian tax consolidation regime, GrainCorp and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 30 September 2019, GrainCorp had gross carried forward income tax losses of approximately \$345 million (of which \$308 million were recognised in the balance sheet as a deferred tax asset of \$89 million) and approximately \$8 million of gross carried forward Australian capital losses. GrainCorp also had approximately \$14.9 million in accumulated franking credits available.

³¹ Subsequent to the balance date, the principal facility amount was reduced from \$500 million to \$400 million (and the amount drawn was reduced through the proceeds from the sale of Australian Bulk Liquid Terminals).

³² Inventory pledged as security for commodity funding facilities is held by the Grains and Oils businesses (i.e. excluding Malt inventories).

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**(ii) Commitments**

At 30 September 2019, GrainCorp had commitments for contracted capital expenditure of \$16.2 million, non-cancellable operating leases of \$295.9 million and minimum finance payments of \$8.5 million.

GrainCorp provides financial guarantees in the normal course of business and has provided a bank guarantee in favour of the WorkCover Authority NSW for \$0.3 million (at September 2019), representing an actuarial assessment of the contingent liability arising from past self-insurance for period prior to June 2006.

As part of the Crop Production Contract, GrainCorp has provided a guarantee of \$92.4 million.

3.6 Capital Structure and Ownership

GrainCorp has 228,855,628 ordinary shares on issue³³. At 31 October 2019, there were 12,845 registered shareholders in GrainCorp. The top twenty registered shareholders accounted for approximately 88% of shares on issue and are principally institutional nominee or custodian companies. Around 96% of GrainCorp's registered shareholders hold 10,000 shares or less and this represents less than 8% of shares on issue. GrainCorp has received substantial shareholder notices as follows:

GRAINCORP – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE
Ellerston Capital Limited	14 August 2019	33,382,431	14.6%
Perpetual Limited	12 June 2019	32,369,968	14.1%
Dimensional Entities	21 August 2017	13,742,579	6.0%
Vanguard Group	27 August 2019	11,493,404	5.0%

Source: GrainCorp

GrainCorp operates two employee incentive plans:

- **Deferred Equity Plan:** a participant's short term incentive is deferred by the grant of a right that converts to a share at the end of the vesting period (i.e. 50% at the end of year one and the balance at the end of year two). Share rights are forfeited upon resignation or termination with cause (subject to the Board's discretion) but vest in full at the normal date (subject to Board discretion) upon redundancy, disability, death or retirement. In the event of a change of control, any unvested rights will vest unless the Board determines otherwise; and
- **Long Term Incentive Plan:** a participant's long term incentive is deferred by the grant of a right that converts to a share at the end of the vesting period (i.e. three years after grant subject to return on invested capital and total shareholder return hurdles). Share rights are forfeited upon resignation or termination with cause (subject to Board discretion) but a participant is entitled to a pro-rata amount of unvested rights upon redundancy, disability, death or retirement. Any unvested rights which continue to be held will be tested at the end of the performance period (subject to Board discretion). In the event of a change of control, the rights will be tested as to the extent to which the vesting conditions have been satisfied at the time of the change of control as determined by the Board. Any unvested rights will vest without being pro-rated as to time unless the Board determines otherwise. Rights that do not vest will lapse.

³³ Including shares held by GrainCorp Employee Share Ownership Trust for the purpose of issuing shares under GrainCorp's employee incentive plans. The rules of these plans allow for the transfer of existing shares to participants on vesting of rights (i.e. if not held already held by the trustee then to acquire them on market) or the issue of shares to satisfy vested rights. Shares held by the trust are recognised as treasury shares. At 30 September 2019, the trust held 1,900 GrainCorp shares (i.e. the trustee needed to obtain a further 1,172,378 shares to fulfil its obligations on vesting of existing performance share rights).

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Performance share rights on issue under these plans are as follows:

GRAINCORP – PERFORMANCE SHARE RIGHTS

PLAN	GRANT DATE	EXPIRY DATE	ON ISSUE	EXERCISABLE
Deferred Equity Plan	31 January 2018	30 Sept 2018 /30 Sept 2019	212,434	212,434
	27 February 2018	30 Sept 2018 /30 Sept 2019	14,918	14,918
	29 January 2019	30 Sept 2019 /30 Sept 2020	233,785	143,977
			461,137	371,329
Long Term Incentive Plan	22 February 2018	30 Sept 2020	330,513	-
	1 March 2019	30 Sept 2021	357,563	-
	16 April 2019	30 Sept 2021	25,065	-
			713,141	-
Total			1,174,278	371,329

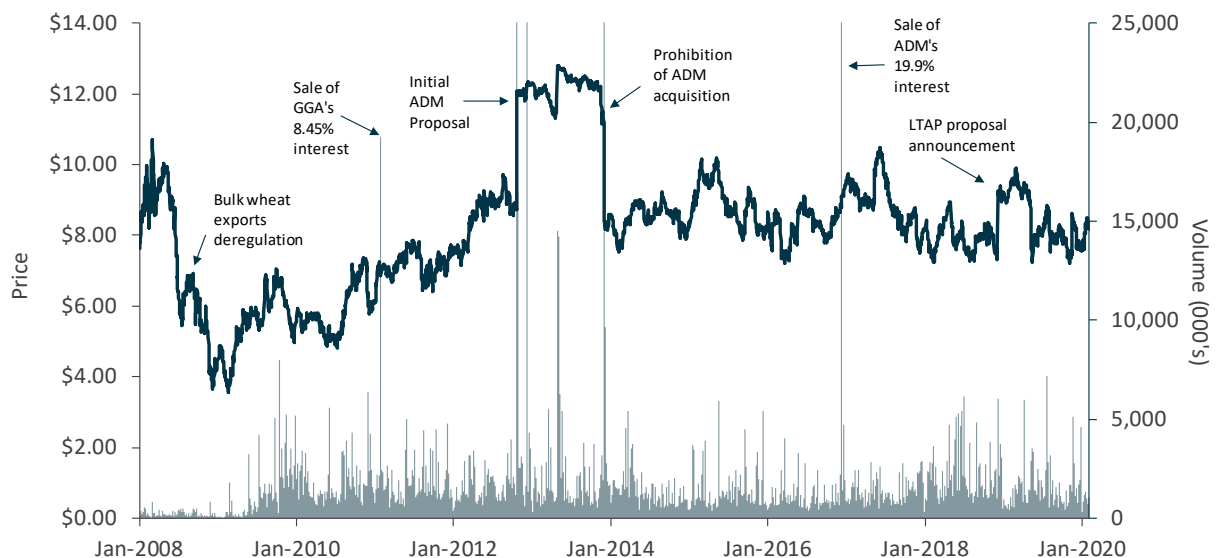
Source: GrainCorp

3.7 Share Price Performance

From listing in 1998 to 2008 the VWAP³⁴ for GrainCorp shares was around \$8.00 (on an adjusted basis) on relatively thin volumes. The period since 2008 has seen substantial growth and change in GrainCorp's business, a number of corporate ownership events and significant swings in the East Coast Australia grain crop (particularly since 2016). The following graph illustrates the movement in the GrainCorp share price and trading volumes since January 2008:

GRAINCORP – SHARE PRICE AND TRADING VOLUME

(JANUARY 2008 – JANUARY 2020)



Source: IRESS

Notes: (1) Share prices on an adjusted basis reflecting rights issues, bonus issues and special dividends.

- (2) On four days in this period more than 25 million shares were traded but are not shown on the graph:
- 19 October 2012 and 6 December 2012 relating to dealings by ADM in building its 19.9% interest;
 - 29 November 2013 following the Federal Treasurer prohibiting ADM acquiring 100% of GrainCorp; and
 - 2 December 2016 relating to sale of ADM's 19.9% interest.

Increased market interest in GrainCorp and the removal of the Foundation Share in February 2008 provided support for the share price in early 2008, notwithstanding the downturn in equity markets. However, the

³⁴ VWAP is volume weighted average price.

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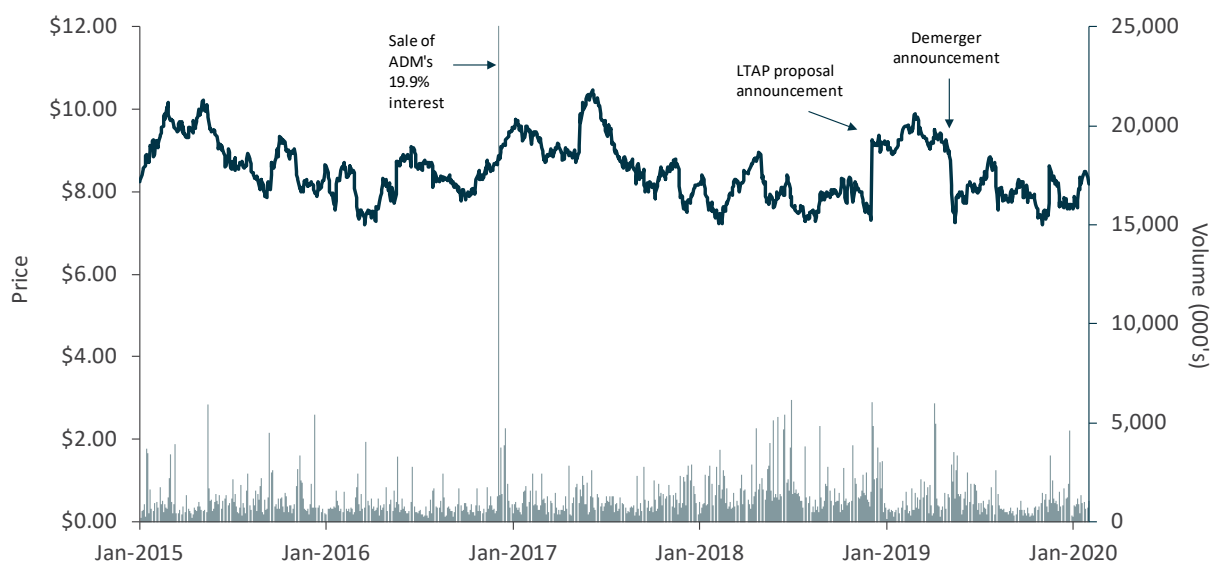
prolonged drought in eastern Australia and market uncertainty regarding GrainCorp's strategy (e.g. the move into rail logistics) as well as deregulation of Australian bulk wheat exports placed downward pressure on the share price. The continuation of drought conditions pushed the share price lower to around \$4.00 (adjusted basis) in early 2009.

As seasonal conditions improved and the "end to end" business strategy started to positively impact on performance benefits, the share price strengthened. GrainCorp shares recovered to trade broadly in the range \$5.00-6.00 (adjusted basis) during 2009 and continued to do so for the next year or two. The sale of GGA's 8.45% shareholding in January 2011 increased GrainCorp's free float to 100% and, during 2011, GrainCorp shares moved up to trade in the range \$6.00-8.00 (adjusted basis). On the back of a strong 2011/12 harvest, positive expectations for the 2012/13 harvest (due to above average rainfall) and the acquisition of Gardner Smith Group and Integro Foods, the GrainCorp share price rose further to around \$9.00 (adjusted basis) during 2012.

The share price jumped by over 35% to around \$12.00 following ADM's initial proposal on 22 October 2012 and generally remained above \$12.00 during the period of the ADM Offer. Following the announcement that ADM had been prohibited from acquiring GrainCorp in late 2013, the share price dropped back to around \$8.00. Since then, GrainCorp shares have broadly traded in a \$7.00-10.00 range:

GRAINCORP – SHARE PRICE AND TRADING VOLUME

(JANUARY 2015 – JANUARY 2020)



Source: IRESS

Notes: (1) Share prices on an adjusted basis reflecting rights issues, bonus issues and special dividends.

(2) On one day in this period more than 25 million shares were traded but are not shown on the graph (i.e. 2 December 2016 when ADM sold its 19.9% interest).

In the first half of 2015, as the benefits of the business improvement initiatives emerged, the GrainCorp share price initially rose to trade in the range \$9.00-10.00 but fell back to around \$8.00 due to challenging operating conditions as a result of a relatively small East Coast Australia grain harvest. Over the next year, GrainCorp shares traded broadly in a range of \$7.00-8.50. ADM sold its 19.9% interest in an underwritten process in December 2016 at \$8.53 per share. Subsequently, the share price traded higher to peak at around \$10.00 following the strong 1HY17 result, the large 28.2mmt 2016/17 harvest (an increase of ~10mmt over the prior year) and a doubling of the interim dividend to 15 cents per share (reflecting expectations for the FY17 results). As climatic conditions turned and the drought in eastern Australia emerged during FY18, the share price moved back down to below \$8.00, despite ongoing business efficiency improvements.

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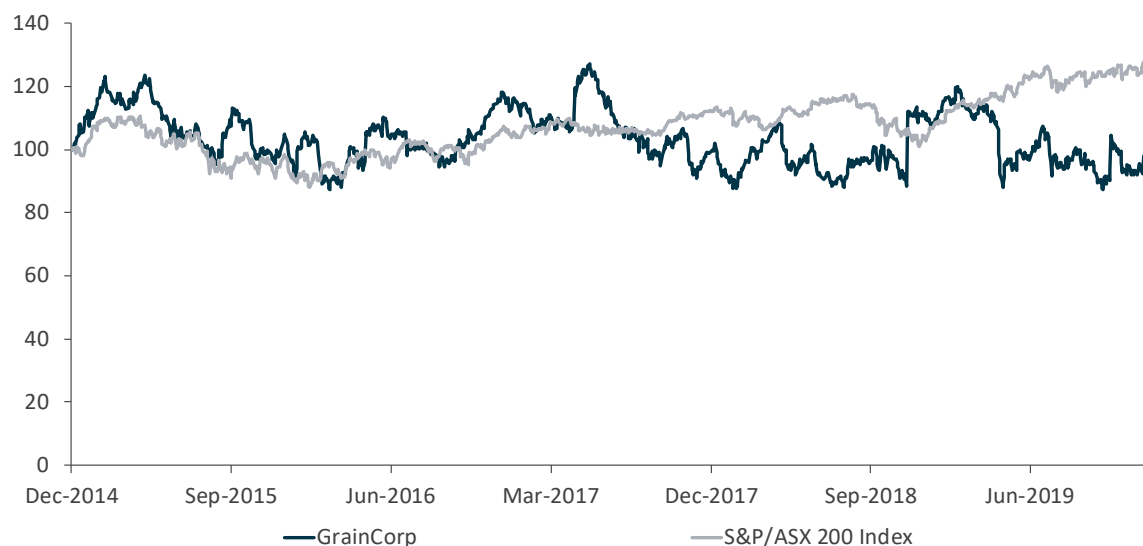


On announcement of the proposal from LTAP in December 2018, the share price jumped to around \$10.00 and, notwithstanding a range of announcements regarding GrainCorp's business (including the sale of Australian Bulk Liquid Terminals, evaluation of a grain production derivative instrument and the proposed separation of UMG), fell back to below \$8.00 when it was announced on 6 May 2019 that the LTAP proposal would not be proceeding. Since 6 May 2019, GrainCorp shares have traded in the range \$7.18 - \$8.95, at a VWAP of \$8.00. For most of the period, the shares traded in the \$7.50-8.00 range but in mid-January, leapt to \$8.50 before receding back towards \$8.00. This higher price level coincided with renewed press speculation as to private equity interest in GrainCorp Malt.

GrainCorp's free float has been 100% since ADM's sell-down of its 19.9% interest in December 2016. However, fund managers Ellerston Capital Limited ("Ellerston") and Perpetual Limited ("Perpetual") have been long term substantial investors in GrainCorp and currently account for just under 30% of the share register. In the twelve months prior to 3 December 2018 (the date of announcement of the proposal from LTAP) and notwithstanding the interests of Ellerston and Perpetual, GrainCorp had been a liquid stock with average weekly volume representing approximately 2.8% of average shares on issue or annual turnover of around 145% of total average issued capital. Since 6 May 2019, annualised turnover has been in the order of 120%.

GrainCorp is an ASX 200 company and is a member of various indices including the S&P/ASX 200 Index and S&P/ASX 200 Food, Beverage & Tobacco Index. Its weighting in these indices is approximately 0.1% and 5% respectively. The following graph illustrates the performance of GrainCorp shares since 1 January 2014 relative to the S&P/ASX 200 Index:

GRAINCORP VS S&P/ASX 200 INDEX
(JANUARY 2015 – JANUARY 2020)



Source: IRESS

GrainCorp shares performed largely in line with the S&P/ASX 200 Index (with some brief periods of over and under performance) until mid-2017 when expectations of a substantially lower 2017/18 eastern Australian wheat crop emerged (including a low exportable surplus). This underperformance continued as drought conditions continued and expectations firmed for an even lower 2018/19 crop. The December 2018 announcement of the LTAP proposal saw a jump in the share price and a corresponding share price drop when the LTAP proposal failed to proceed in early May 2019. Excluding the impact of the LTAP proposal, GrainCorp shares have underperformed the market since mid-2018, effectively remaining flat while the market has risen relatively strongly.

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4 Background on Demergers and Spin-offs

A “demerger” or “spin-off” is generally understood to be a pro-rata transfer of shares in a wholly owned subsidiary to shareholders of the parent company. The broad principle underlying demergers is that sharemarkets do not reward corporate diversification unless there are substantial synergies available to a corporate holder of a diversified portfolio of assets or there is some other strategic rationale. Investors can achieve diversification themselves and it is generally accepted that investors prefer the investment flexibility resulting from the separation of assets into separate companies that have relatively focussed businesses. Consequently, demergers have typically been undertaken to create investment opportunities with a single geographic focus, a single industry focus or a single product focus. However, demergers may be undertaken for a variety of strategic reasons.

A pure demerger involves the transfer to existing shareholders of 100% of the shares in the subsidiary and there is no dilution of equity or transfer of ownership from the current shareholders. There are a number of variants that are also loosely referred to as demergers including:

- a partial demerger, where the parent distributes a portion of its interest in the subsidiary’s shares to existing shareholders and either retains the remaining shares for a period or sells them immediately through an initial public offering (“IPO”) or other sale process. The portion distributed could be a majority (>50%) or minority (<50%) interest. The carved-out subsidiary has its own board, management and financial statements while the parent company may provide strategic direction or central resources. The level of influence by the parent will reflect the interest retained and other factors;
- an equity carve-out, where the parent company sells a portion of a subsidiary’s shares (usually less than 50%) through an IPO. Similar to a partial demerger, the carved-out subsidiary will have its own board, management and financial statements while the parent company provides strategic direction and central resources; and
- a divestiture IPO, where 100% of the shares in the subsidiary are sold to the public, often with some kind of preferential right offered to the parent company shareholders.

The use of demergers as a method of divesting a subsidiary has become a common feature of equity markets. Demergers implemented in Australia since 2009 include:

SELECTED RECENT DEMERGERS IN AUSTRALIA³⁵

DATE ³⁶	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Oct 2019	Cardno Limited	Consulting	Intega Group Limited	Quality testing and measurement	100%
Nov 2018	Wesfarmers Limited	Conglomerate	Coles Group Limited	Supermarket, liquor, convenience, financial services businesses	85%
Jun 2018	Westfield Corporation	Shopping centre development, management and ownership	OneMarket Limited	Retail technology	100% ³⁷
Nov 2017	Fairfax Media Limited	Media	Domain Holdings Australia Limited	Online property	40%

³⁵ The following demergers have been excluded from the table:

- the June 2013 demerger of the publishing business of News Corporation (now renamed Twenty-First Century Fox Inc.) as News Corporation as both are United States listed companies with secondary listings on the ASX; and
- Reckon Limited’s August 2017 demerger of GetBusy Plc on the AIM Market of the London Stock Exchange which also involved a £3 million capital raising for working capital purposes.

³⁶ Implementation date (i.e. when trading commenced as separate entities).

³⁷ While 100% of OneMarket Limited was demerged, OneMarket Limited only owned 90% of the OneMarket business with the remaining 10% retained by Westfield Corporation and acquired by Unibail-Rodamco SE as part of its acquisition of Westfield Corporation.

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SELECTED RECENT DEMERGERS IN AUSTRALIA³⁵ (CONT)

DATE ³⁶	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Dec 2016	Metals X Limited	Base metals	Westgold Resources Limited	Gold	100%
Jun 2016	APN News & Media Limited (renamed HT&E Limited)	Media and entertainment (Australia)	NZME Limited	Media and entertainment (New Zealand)	100%
Feb 2016	National Australia Bank Limited	Banking (Australia and New Zealand)	CYBG Plc	Banking (United Kingdom)	75%
May 2015	BHP Billiton	Resources	South32 Limited	Metals and mining	100%
Dec 2013	Amtcor Limited	Flexible and rigid plastics packaging (global)	Orora Limited	Diversified packaging (Australasia) and packaging distribution (North America)	100%
Dec 2013	Brambles Limited	Pallet and container pooling solutions	Recall Holdings Limited	Document management	100%
Jun 2011	Tabcorp Holdings Limited	Wagering, gaming and keno	Echo Entertainment Group Limited	Casinos	100%
May 2011	Foster's Group Limited	Beer	Treasury Wine Estates Limited	Wine	100%
Jul 2010	Orica Limited	Mining services, chemicals	DuluxGroup Limited	Coatings and home improvement products	100%
Jul 2010	Arrow Energy Limited	Coal seam gas (Australia)	Dart Energy Limited	Coal seam gas (international)	100%
Jan 2010	Macquarie Infrastructure Group (renamed Intoll Group)	Toll roads	Macquarie Atlas Roads Group	Toll roads	100%

Source: IRESS

Notably, most demergers in Australia have involved distributing 100% of the subsidiary entity and in the other cases the balance was a minority interest that was either sold through other means or retained for a limited period³⁸. However, partial demergers have occurred in other jurisdictions.

There has also been a number of high profile divestiture IPOs in Australia since 2009 including:

SELECTED RECENT DIVESTITURE IPOs IN AUSTRALIA

DATE	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DIVESTED
Dec 2012	Woolworths Limited	Retail	Shopping Centres Australasia Property Group	Property ownership	100%
Dec 2011	Fairfax Media Limited	Media	Trade Me Group Limited	Online classifieds in New Zealand	34%
Dec 2010	Westfield Group	Shopping centre development, management and ownership	Westfield Retail Trust	Property ownership	100%

Source: IRESS

The outcome is similar whether the transaction is undertaken by way of a distribution of shares or an IPO. For example, Fairfax Media Limited's IPO of a 34% interest in TradeMe in December 2011 created a standalone company (albeit controlled by Fairfax Media until it sold its residual 51% interest in December 2012).

³⁸ In relation to the less than 100% Australian demergers since 2009:

- Wesfarmers Limited retained a 15% interest in Coles Group Limited at demerger on the basis that it provides an alignment of interests (given ongoing contractual arrangements and joint ownership of *flybuys*) and demonstrates its confidence in the business;
- Fairfax Media Limited retained a controlling 60% interest in Domain Holdings Australia Limited at separation; and
- National Australia Bank sold the residual 25% interest in CYBG PLC via an IPO at the time of the demerger.

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The benefits typically cited for demergers largely revolve around the differences in business focus or strategic direction between the parent company and the demerged entity. However, at the same time there are a number of disadvantages, potential risks and costs associated with demergers. The primary issues raised are listed below:

ISSUES ASSOCIATED WITH DEMERGERS

ADVANTAGES/BENEFITS	DISADVANTAGES/RISKS/COSTS
<ul style="list-style-type: none"> transparency investor attraction and interest enhanced flexibility to shareholders clarity in capital allocation flexibility in raising capital independence and strategic flexibility to undertake growth initiatives better targeted incentives and management/board focus 	<ul style="list-style-type: none"> loss of synergies transaction costs duplication of corporate costs increased financing costs loss of diversification and scale reduced sharemarket liquidity and rating in key indices

There is little definitive evidence as to whether or not demergers have been successful in enhancing shareholder value, largely because it is not possible to measure what the share prices would have been had the demergers not occurred (i.e. there is no counterfactual) and most of the academic studies relate to demergers in the United States or in Europe. Some of the evidence and views that have emerged are summarised below:

- several studies³⁹ have found that there was a positive impact on the share price (of around 3-6%) at the time of the announcement (with a similar rise occurring where there was a targeted share or equity carve-out). One study⁴⁰ found that the positive impact on share price is lower in Australia (2.93%) than studies indicate for the United States market. Another study has shown that, in some circumstances, there is no decline in share price even if the demerger is ultimately withdrawn⁴¹;
- several studies⁴² have also found significantly positive abnormal returns over an extended period (of up to three years) following the demerger for the demerged company, the parent and the demerged company/parent combination. On the other hand, one study⁴³ found that demergers only delivered long term value benefits for the demerged subsidiary (and not the parent) and another study⁴⁴ found significant evidence that spin-offs create more value than carve-outs. In particular, recent studies^{43,45} report weak evidence for long term wealth effects when using more refined measuring techniques;

³⁹ See for example: P.L. Anslinger, S.J. Klepper and S. Subramaniam, "Breaking up is good to do", The McKinsey Quarterly, 1999 Number 1; Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003; UBS Investment Research, "Q-Series: Spin-offs and restructures", UBS Limited, 14 April 2005, Roger Rüdisüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005, CIMB Quantitative Research, "Spin-off Candidates", CIMB Securities (Australia) Ltd, September 2013, S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014.

⁴⁰ D. Chai, K. Lin and C. Veld, "Value-creation through spin-offs: Australian evidence", Australian Journal of Management, Vol 43, 2017.

⁴¹ K. Alli, G. Ramirez and K. Yung, "Withdrawn Spin-offs: An Empirical Analysis", The Journal of Financial Research, Winter 2001.

⁴² See for example: J. Wyatt, "Why Spinoffs Work for Investors", Fortune, October 16 1995, p72; P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993, T.A. John, "Optimality of Spin-outs and Allocation of Debt" Journal of Financial and Quantitative Analysis, 1993, B.J. Hollowell, "The Long-Term Performance of Parent Firms and their Spin-offs", The International Journal of Business and Finance Research, Volume 3, No.1, 2009 and Morgan Stanley Asia Insight, "BHP Billiton Limited: A Detailed Look at South32", Morgan Stanley, April 2015.

⁴³ Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003.

⁴⁴ Roger Rüdisüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005.

⁴⁵ S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014, N. Zakaria and G.C. Arnold, "Spin-off and Value Creation: The Case of Malaysia", 2014 and D. Boreiko and M. Murgia, "European Spin-offs: Origin, Value Creation, and Long-Term Performance", Draft Paper, Free University of Bolzano-Bozen, April 2013.

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- one analyst report⁴⁶ found that following a demerger, where the resulting entities are relatively similar in size, both entities generally underperform the market for a period of approximately six months. In the long term however, both stocks tend to outperform the market (implying that the market awaits a reporting period before committing to the new entities). In comparison, where the subsidiary is much smaller than the parent, the demerged entity is typically a strong outperformer while the parent moves with the market; and
- some of the reasons found to be associated with positive abnormal returns have included:
 - corporate restructuring activity⁴⁷. Both the demerged subsidiary and the parent experience an unusually high incidence of takeovers in comparison to their control group comparable companies. The abnormal performance is limited to companies involved in takeover activity. The findings suggest that demergers provide a low-cost method of transferring control of corporate assets to bidders who are able to create greater value. This benefit will not apply in the case of partial spin offs where the parent company retains control of the spun out entity;
 - mitigation of information asymmetry⁴⁸. The hypothesis was that value would be enhanced if the demerged subsidiary is able to convey more information about its operating efficiency and future prospects when it is a separate entity than when it is part of a larger combined unit. The findings were that firms that engage in demergers have higher levels of information asymmetry compared to their industry and size matched counterparts and the information problems decrease significantly after the demerger as analyst scrutiny increases. The relationship is more pronounced for those companies that demerge related subsidiaries;
 - increased management and board focus⁴⁹ translating into better operating and sharemarket performance. The abnormal returns for focus-increasing demergers are significantly larger than the corresponding abnormal returns for the non-focus-increasing demergers. A focus-increasing demerger reduces the diversity of assets under management and thereby increases the efficiency of management. However, an analysis of non-focus increasing demergers showed that companies are likely to undertake these demergers to separate underperforming subsidiaries from their parents with efficiency not being a major motivating factor. Indeed, positive returns after the demerger have been found to be due to pre-announcement sharemarket weakness;
 - improved financing decisions⁵⁰. Conglomerates tend to divide resources evenly between divisions thus investing too little in strong industries and too much in weaker industries. The study showed that capital expenditure showed greater sensitivity to changes in growth opportunities after a division became independent; and
 - rebalancing of shareholdings by investors⁵¹. The study indicates that the ratio of continuing investors who choose to only hold one of the entities after spin-off is a significant predictor of abnormal returns. Therefore, it is difference in opinions of shareholders about the relative prospects of the demerger entities which leads to excess returns rather than the business impacts of the transaction. This outcome is consistent with the thesis that separation will mean that each company will attract investors that are likely to value it the highest.

However, while finding a significant spin-off announcement effect, a recent study⁴⁰ concludes that none of these factors offers a solid explanation for the effect in Australia.

⁴⁶ Macquarie Research Equities, "Australian Gas Light: Acquisitions, Restructures and Au Revoirs", 1 November 2005.

⁴⁷ P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993.

⁴⁸ S. Krishnaswami and V Subramaniam, "Information asymmetry, valuation and the corporate spin-out decision" Journal of Financial Economics, Volume 53, No. 1, July 1999.

⁴⁹ See for example: H. Desai and P.C. Jain, "Firm performance and focus: long-run stock market performance following spin-outs", Journal of Financial Economics, Volume 54, No. 1, October 1999 and L. Daley, V. Mehrotra and R. Sivarenmar, "Corporate Focus and Value Creation: Evidence from Spinoffs", Journal of Financial Economics, Volume 45, 1997.

⁵⁰ R. Gertner, E. Powers and D. Scharfstein, "Learning About Internal Capital Markets From Corporate Spinoffs", November 2000.

⁵¹ T. Bhandari, "Differences of Opinion and Stock Prices: Evidence from Spin-Offs and Mergers", Draft Doctoral Dissertation at MIT Sloan School of Management, November 2013.

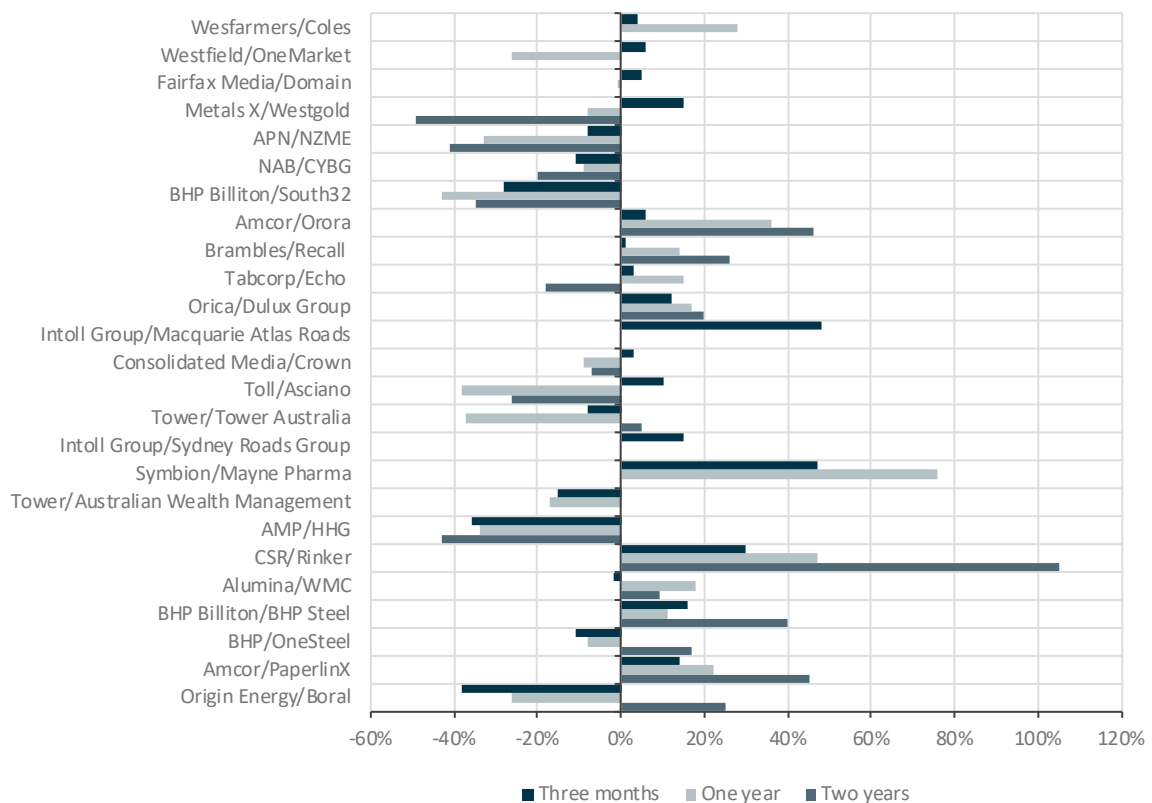
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Grant Samuel has reviewed the relative performance of Australian companies that have undertaken demergers since 2000. While an admittedly imperfect basis of analysis and somewhat crude (given the wide range of factors that influence share prices), this review tends to support the thesis that demergers enhance shareholder value, particularly having regard to sharemarket performance one to two years after the demerger.

The following graph summarises the combined share price performance of the parent company and the demerged entity relative to the S&P/ASX 200 index, from last close prior to announcement to three months, one year and two years after the date the demerged entity was listed on the ASX for demergers from 2000 (with certain exclusions). See below:

RETURNS OF SELECTED RECENT DEMERGERS VS S&P/ASX 200 INDEX
(MEASURED FROM LAST CLOSE BEFORE ANNOUNCEMENT TO PERIOD AFTER LISTING)



Source: IRESS

Notes: (1) The share price performance from last close before announcement to listing is for the parent company. The share price performance subsequent to listing is the aggregated performance of the parent company and the demerged entity.

(2) No returns are shown in the chart for:

- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger; and
- Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.

(3) No one and two year returns are shown in the chart for:

- Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger; and
- Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger.

(4) No two year returns are shown in the chart for:

- Wesfarmers/Coles which commenced trading separately on 21 November 2018;
- Westfield Corporation (Unibail-Rodamco CDIs)/OneMarket which commenced trading separately on 31 May 2018;
- Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
- Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
- Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

The above analysis indicates that the combined performance of demerged entities from announcement to immediately post demerger has been mixed, but that demerged entities have generally outperformed the

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market within two years of listing⁵². However, this analysis must be treated with caution as, at best, it provides only a partial analysis of the market value consequences of demergers. In particular, it:

- does not fully reflect returns to shareholders following demerger as it either excludes entirely or only partially includes demergers where either the parent or demerged entity was acquired within two years of the demerger (e.g. Fairfax Media/Domain, Arrow Energy/Dart Energy, Foster's Group/Treasury Wines). In these cases, shareholders also benefited from receipt of control premia;
- does not reflect that some of the entities were either acquired (Recall, Rinker, WMC Resources) or were involved in other corporate activity (Tower Australia, Australian Wealth Management) more than two years after, but within 3-4 years, of their demergers; and
- measures performance against an overall market index. The results may differ if performance is measured against a relevant sector index.

Furthermore, in many cases, significant underperformance or overperformance in the two years after listing reflects factors specific to the demerging companies or the industries in which they operate and may not be attributable to the demerger itself. For example:

- AMP/HHG was impacted by a substantial write down in certain assets and a capital raising at a significant discount which were announced in conjunction with the demerger. The returns from this demerger measured from listing (rather than announcement) are positive;
- Tower/Tower Australia was impacted by the underperformance of the insurance sector relative to the market during 2007;
- Toll/Asciano was impacted by Asciano's need to reduce high gearing levels following the global financial crisis in 2008/2009;
- Consolidated Media/Crown was impacted by the underperformance of the media industry relative to the market following the global financial crisis in 2008/2009;
- Tabcorp/Echo was impacted by various legal and regulatory decisions relating to gambling and casino operations as well as competitive concerns;
- BHP Billiton/South 32 was impacted by significant falls in commodity prices;
- NAB/CYBG was impacted by the 25% decline in NAB's share price from announcement of the demerger of CYBG in May 2015 to implementation in February 2016 as a result of a dilutive capital raising and the significant correction in global equities in August 2015; and
- APN/NZME was impacted by the underperformance of the legacy media sector, the termination on regulatory grounds of the proposed merger of NZME with Stuff Limited (previously Fairfax New Zealand Limited) and the acquisition proposal received for NZME's Adshel business.

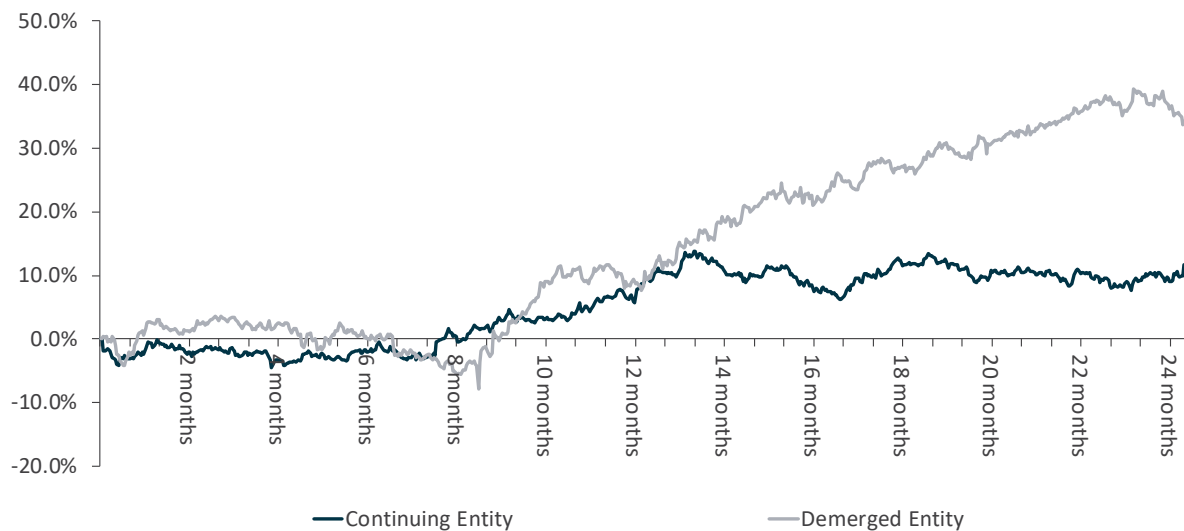
Another way to assess the performance of demergers is to aggregate the data for all the entities. This analysis also indicates a significant level of outperformance, albeit over time. While the outperformance over the S&P/ASX 200 is inconsequential over the first nine months post demerger, the benefits then begin to be steadily realised over the following 15 months. The relative outperformance over the S&P/ASX 200 for the two year period is approximately 34% and 12% for the demerged businesses and legacy businesses, respectively.

⁵² This is supported by analysis by Goldman Sachs Australia in "Equity Strategy: Reviewing Large Cap Demerger Strategies", 15 February 2011; Bank of America Merrill Lynch in "Delivering Returns in Tough Times", 29 May 2013, Macquarie Securities (Australia) Limited in "Demergers: Breaking Up is Hard to Do", 14 June 2013 and CIMB Securities (Australia) Ltd in "Spin-off Candidates", 3 Sept 2013.

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AGGREGATE DEMERGER PERFORMANCE RELATIVE TO S&P/ASX 200
(MEASURED FROM DATE DEMERGER IMPLEMENTED)



Source: S&P CapitalIQ

- Notes:
- (1) For the purposes of this chart, Continuing Entity refers to the legacy business.
 - (2) The relative performance calculation is based on the relative returns between the S&P/ASX 200 index and the average closing share prices of Continuing Entity and Demerged Entity.
 - (3) No returns are shown in the chart for:
 - Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger; and
 - Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
 - (4) No one and two year returns are shown in the chart for:
 - Cardno/Intega, which commenced trading separately on 22 October 2019;
 - Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger; and
 - Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger.
 - (5) No two year returns are shown in the chart for:
 - Wesfarmers/Coles which commenced trading separately on 21 November 2018;
 - Westfield Corporation (Unibail-Rodamco CDIs)/OneMarket which commenced trading separately on 31 May 2018;
 - Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
 - Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
 - Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

On the other hand, some studies have found that demergers may negatively impact value and that conglomerates have outperformed the market over some periods⁵³. Conglomerate structures do have benefits including financial size and strength, better liquidity and higher index rating, lower earnings volatility and risk (if business units are not correlated in terms of economic cyclicity), greater depth of management and lower cost of capital (depending on other factors).

While the balance of evidence does favour demergers as adding value, the alternate views underline the fact that there is no universal structure for businesses. While some demergers create substantial value, others do not. In the end, the success of demergers depends on the specific circumstances of each case.

⁵³ Boston Consulting Group, "Conglomerates Reports", 2002.

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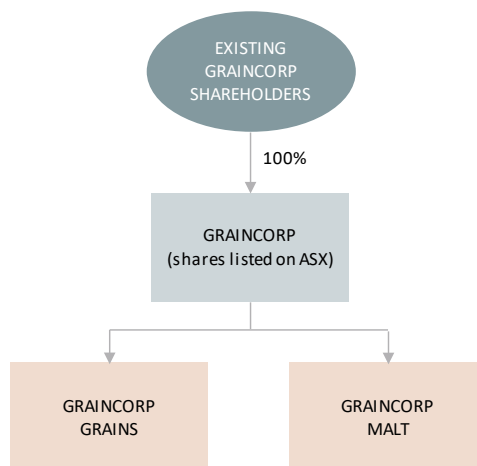


5 Impact of the Proposed Demerger

5.1 Structure and Ownership

The structure and ownership of GrainCorp prior to the Proposed Demerger is shown below:

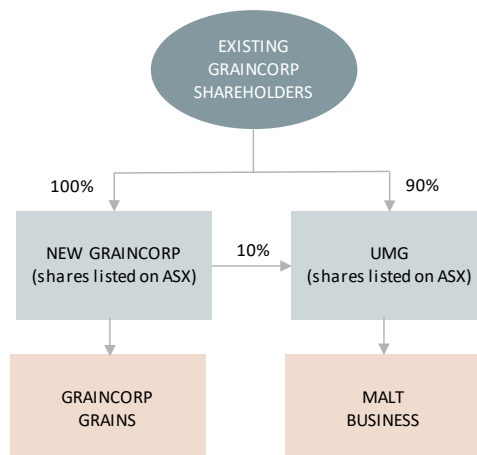
GRAINCORP STRUCTURE – BEFORE PROPOSED DEMERGER



Source: GrainCorp

The effect of the Proposed Demerger on GrainCorp's structure and ownership is shown below:

GRAINCORP STRUCTURE – AFTER PROPOSED DEMERGER



Source: GrainCorp

Apart from some transitional arrangements and certain agreed ongoing commercial arrangements, the companies will be arm's length parties and deal with each other on full commercial terms.

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5.2 UMG

5.2.1 Operations and Strategy

UMG will be the fourth largest commercial malt manufacturer globally and the only one of the major maltsters listed on a stock exchange. It will have operations in Australia, Canada, the United States and the United Kingdom and around 970 employees (full time equivalent).

The operations and strategy of UMG will be largely similar to GrainCorp Malt. It will continue to:

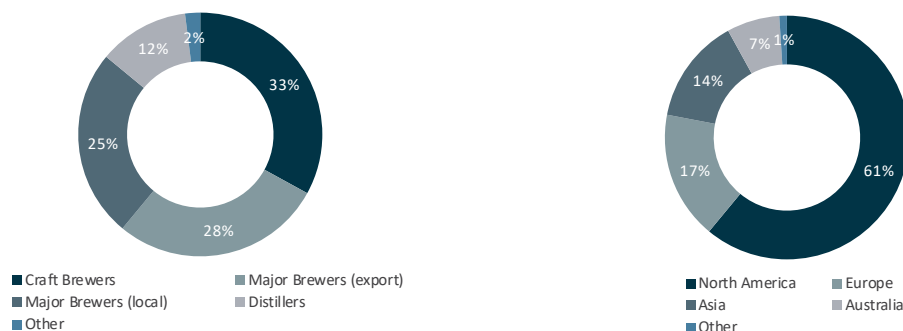
- operate as an international malt processing and distribution business with a growing craft brewing distribution business;
- trade under four distinct local identities for the processing business (Barrett Burston Malting in Australia, Canada Malting Limited in Canada, Great Western Malting in the United States and Bairds Malt Limited in the United Kingdom) and three distinct brands for the distribution business (Country Malt Group and Brewers Select in North America and Cryer Malt in Australia and New Zealand); and
- generate earnings along the malt supply chain including barley procurement and handling, malt processing and sale of co-products and distribution and sale of value added malt and related products.

However, it will need to expand its standalone corporate infrastructure (particularly functions necessary for a publicly listed entity) and manage its capital structure independent of GrainCorp. UMG will also leverage:

- increased management focus and capital allocation resources along the two newly aligned operating segments - Processing and Distribution;
- the recent capital investment in additional malting capacity (79,000 tonnes per annum in Scotland and 120,000 tonnes per annum in the United States). When the Scottish expansion is completed in 2021, UMG will have global capacity to produce ~1.3mmt of malt per annum;
- the strategic location of its processing assets in premium barley growing regions, which enables it to build long-term direct relationships with growers and cooperatives across these regions;
- the recent acquisition of Cryer Malt, a craft brewing distribution business in Australia and New Zealand; and
- its diversified customer profile and the significant proportion of its production that is for major customers under tolling agreements (under which the customer bears barley price risk).

UMG has built strong market positions and partnerships in higher growth segments in an industry where overall growth has been flat in recent years. With over 600 processing customers and over 7,000 distribution customers, UMG's revenues can be analysed by region and customer as follows:

**UMG – CUSTOMER MIX BY CUSTOMER TYPE AND GEOGRAPHY
BASED ON FY 19 REVENUES**



Source: GrainCorp

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As a standalone business, UMG's geographic exposure will shift more heavily towards North America where it holds 750ktpa⁵⁴ (60%) of its global malt processing capacity. A detailed description of UMG is set out in Section 2 of the Demerger Scheme Booklet.

5.2.2 Earnings and Dividends

The pro forma historical performance of UMG for the three years ended 30 September 2019 is summarised below:

UMG – PRO FORMA SUMMARISED HISTORICAL FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER			
	2016 PRO FORMA HISTORICAL	2017 PRO FORMA HISTORICAL	2018 PRO FORMA HISTORICAL	2019 PRO FORMA HISTORICAL
Processing	892.7	839.4	878.4	1,001.4
Warehouse / distribution	249.4	262.5	306.5	349.8
Intercompany eliminations	(27.3)	(27.5)	(32.5)	(34.7)
Sales revenue	1,114.8	1,074.4	1,152.4	1,316.5
Underlying EBITDA¹	149.2	145.8	155.4	160.2
Depreciation and amortisation	(48.5)	(47.8)	(55.5)	(52.3)
Underlying EBIT	100.7	98.0	99.9	107.9
Net finance costs	(11.9)	(11.7)	(11.7)	(11.4)
Income tax expense	(25.1)	(27.7)	(10.0)	(26.1)
Operating profit after tax	63.7	58.6	78.2	70.4
Significant items (net of tax) ²	(2.9)	--	--	--
NPAT	60.8	58.6	78.2	70.4
Total capital expenditure³	129.5	92.0	33.8	47.7
STATISTICS				
<i>Sales revenue growth</i>		(3.6%)	7.3%	14.2%
<i>Underlying EBITDA growth</i>		(2.3%)	6.6%	3.1%
<i>Underlying EBIT growth</i>		0.2%	1.9%	8.0%
<i>Underlying EBITDA margin</i>	13.4%	13.6%	13.5%	12.2%
<i>Underlying EBIT margin</i>	8.8%	9.1%	8.7%	8.2%
<i>Interest cover (on EBIT)</i>				9.5x
<i>Interest cover (on EBITDA)</i>				14.1x

Source: Demerger Scheme Booklet and Grant Samuel analysis

Note 1: Broker forecasts for UMG EBITDA exclude additional corporate costs that would be required for a standalone organisation. For comparative purposes, we have included \$14.9 million in corporate costs per annum to the broker forecasts set out in the table above. See Section 2.17 for more detail.

Note 2: Significant items related to impairment of assets and gain / loss on disposal assets relating to the sale of Schill Malz

Note 3: Only \$5 million of the total project capital investment for the Scotland distilling capacity expansion has been incurred through FY19.

The pro forma historical financial performance for UMG has been prepared by GrainCorp on the following basis:

- the Proposed Demerger is assumed to be effective from 1 October 2015;
- it includes:
 - an increase in corporate and operating costs of \$14.9 million per annum to reflect the incremental costs UMG is expected to incur operating as a standalone listed company; and
 - adjustments to reflect the new debt financing arrangements that will be in place post demerger and the removal of finance costs associated with existing banking facilities;

⁵⁴ Thousand metric tonnes per annum.

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- it does not include:
 - discontinued operations (i.e. Schill Malz) and significant items (as reported);
 - potential incremental insurance costs from renewal in 2020, which could be in the range of \$2 million to \$4 million for UMG (see Section 6.6.3); and
 - any allowance for transaction costs associated with the Proposed Demerger;
- the financial results for overseas operations have been translated to Australian dollars at the rates used by GrainCorp in the relevant periods; and
- has been prepared to NPAT level assuming effective tax rates for the respective years. Under the demerger, a new tax consolidated group will be formed for the purposes of Australian income tax, with no changes to tax lodging for UMG's foreign entities.

Total stay-in business capital expenditures relating to safety upgrades and efficiency improvements ranged from \$20 million to \$28 million per annum (a total of \$96 million between FY16 and FY19), representing between 12% to 19% of underlying EBITDA, or around 15% on average. The balance of capital expenditures related to capacity upgrades and expansions.

The detailed pro forma historical performance for UMG (including a description of the assumptions and adjustments made) is set out in Section 2.17 of the Demerger Scheme Booklet. The historical pro forma financial performance has been prepared by GrainCorp and reviewed by PwC. PwC's Investigating Accountant's Report is set out as Attachment B of the Demerger Scheme Booklet.

As a result of strong demand for malt and brewing products and high utilisation across UMG's production facilities, revenues grew at a compound annual growth rate of 5.7% between FY16 and FY19. The completion of the Pocatello expansion in FY17 provided additional production capacity to the business. UMG's earnings grew at a slightly slower rate than revenue partly due to higher barley costs and other input costs but are progressively stable over the historical pro-forma period.

As the Proposed Demerger is expected to complete in March 2020, FY21 will be the first full year of UMG as a standalone listed company. UMG's first financial results as a standalone company will be for FY20, or the period from implementation to 30 September 2020 (to be reported in November 2020).

Following the demerger, UMG will become head company for a new consolidated tax group under the Australian tax consolidation regime. UMG will have no carried forward income tax losses (tax shield) and no carried forward capital losses.

The level of future dividend payments is a matter for the board of UMG. However, dividends are anticipated to be paid twice yearly (in respect of the periods ending March and September) and UMG expects to initially target a dividend payout ratio of 60% of underlying NPAT (before significant items).

UMG intends to pay franked dividends. However, following the demerger UMG will have no franking credit balance and its ability to pay franked dividends will depend on the amount of Australian income tax paid in the future. In view of the substantial level of offshore earnings, the level of franking is likely to be relatively low.

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5.2.3 Financial Position

The pro forma financial position of UMG at 30 September 2019 is summarised below:

UMG – PRO FORMA FINANCIAL POSITION (\$ MILLIONS)

	AT 30 SEPTEMBER 2019 PRO FORMA
Trade and other receivables and derivative financial instruments (net)	274.6
Inventories	347.9
Trade and other payables and provisions	(220.9)
Net working capital	401.6
Property, plant and equipment (net)	621.0
Intangible assets (net)	353.7
Deferred tax liabilities (net)	(73.0)
Other assets and liabilities (non current) (net)	(14.4)
Total funds employed	1,288.9
Cash and deposits	52.5
Borrowings	(486.1)
Net borrowings	(433.6)
Net assets	855.3
Outside equity interests	0.0
Equity attributable to UMG shareholders	855.3
STATISTICS	
<i>Shares on issue at period end (million)</i>	<i>254.3</i>
<i>Net assets per share</i>	<i>3.36</i>
<i>NTA per share</i>	<i>2.26</i>
<i>Net debt</i>	<i>433.6</i>

Source: Demerger Scheme Booklet and Grant Samuel analysis

Note: Grant Samuel has adjusted the presentation of the pro forma financial position for analytical purposes.

The pro forma financial position of UMG has been prepared on the basis that the Proposed Demerger was effective on 30 September 2019. Specifically, it:

- reflects:
 - the internal restructuring steps to be undertaken prior to the demerger (recorded on the basis of carrying value);
 - restructured debt financing arrangements of \$737 million, which will comprise \$360 million in term facilities, \$160 million in working capital facilities and \$217 million in inventory facilities.

UMG has secured consents from financial institutions to provide this financing via bilateral loan facilities on implementation of the Proposed Demerger. The total amount drawn under the facility upon implementation of the Proposed Demerger is subject to change due to capital expenditure requirements and seasonal fluctuations in working capital. Based on pro forma estimates for FY19, the drawn down debt balance is expected to be approximately \$486.1 million (i.e. undrawn commitments of approximately \$250.9 million);

 - settlement of intergroup loan balances with GrainCorp following the drawdown of \$486.1 million of borrowings under UMG's new bilateral loan facilities; and
 - transaction costs relating to the Demerger.
- does not reflect:
 - the trading performance of GrainCorp Malt since 30 September 2019; and
 - capitalisation of operating leases under AASB 16.

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A detailed pro forma statement of financial position (including a description of the assumptions and adjustments made) is set out in Section 2.17 of the Demerger Scheme Booklet. The pro forma financial position has been prepared by GrainCorp and reviewed by PwC. PwC's Investigating Accountant's Report is set out as Attachment B of the Demerger Scheme Booklet.

The pro forma financial position shows that UMG will have significant investment in working capital. However, it needs to be recognised that working capital requirements are subject to seasonal fluctuations throughout a fiscal year (higher in March and lower in September, reflecting the revenue orientation to the second half of the fiscal year) and also impacted by movements in commodity prices and customer mix. Accordingly, net borrowings are likely to be higher at implementation and as at 31 March 2020.

In addition, UMG has operating lease commitments totalling \$96.6 million (14% of which expire in one year), which are expected to result in total estimated capitalised leases (as per AASB 16) of approximately \$80 million in right-of-use assets and associated lease liabilities of approximately \$79 million.

Only \$5 million of the total project capital investment for the expansions in Scotland has been incurred through FY19. The remaining balance of \$90 million to \$110 million is expected to be incurred in the next 24 months.

5.2.4 Directors and Management

UMG's board will comprise five non-executive directors and executive director Mark Palmquist (Managing Director and Chief Executive Officer ("CEO")). Mr Graham Bradley is the current Chairman of GrainCorp and, if the Proposed Demerger is implemented, will be the Chairman of the UMG Board. The remaining directors are proposed to include three current directors of GrainCorp (including one recent appointee) and one new external appointee.

The senior management of UMG will comprise GrainCorp Malt's existing senior management team except that Mark Palmquist (currently CEO of GrainCorp) will be appointed Managing Director and CEO of UMG. Amy Spanik will continue as Chief Financial Officer ("CFO") and the existing operational team is to remain in place.

Further details of the board and senior management of UMG are set out in Section 2.10 of the Demerger Scheme Booklet.

5.2.5 Capital Structure and Ownership

At implementation of the Proposed Separation, UMG will have approximately 254.3 million shares on issue. Assuming no sales or purchases of shares, three of the existing substantial shareholders of GrainCorp (Ellerston, Perpetual and Dimensional Entities) will become substantial shareholders of UMG upon implementation of the demerger (albeit with their percentage interests diluted by 1/10th as a result of GrainCorp's retained stake). New GrainCorp will also be a substantial shareholder in UMG. Vanguard is likely to be diluted below 5% by GrainCorp's retained stake.

Executives and employees who are participants in GrainCorp's existing employee incentive plans who are to become UMG employees will have their entitlements dealt with as set out in Section 5.7 of the Demerger Scheme Booklet. Following demerger, UMG is expected to establish appropriate employee incentive plans and a transitional incentive plan to encourage a focus on performance and the delivery of value to shareholders.

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5.3 New GrainCorp

5.3.1 Operations and Strategy

New GrainCorp will be an integrated agribusiness with grain handling, storage, trading and processing operations in Australia, New Zealand, North America, Asia, Europe and Ukraine focussed on grains, oilseeds, pulses, edible oils and feeds. It will have around 1,980 employees (full time equivalent).

New GrainCorp essentially comprises the operations of GrainCorp Grains & Oils, which will be largely unchanged by the Proposed Demerger. It will continue to operate:

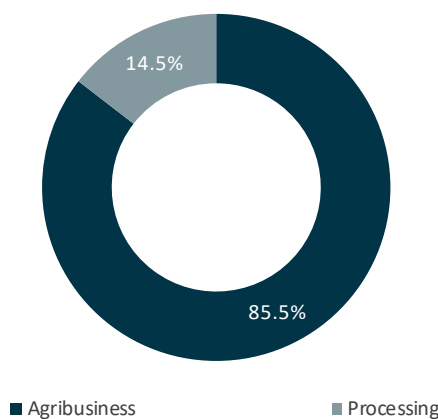
- the largest grains storage, transport and marketing network in eastern Australia including 145 country receival sites with 20mmt of storage capacity and seven bulk grain export terminals;
- Australasia's largest integrated edible oils production business, supplying a wide range of food and animal feed producers across customers in more than 30 countries; and
- an integrated international grains and oilseeds origination and marketing business (including via its 50% interest in GrainsConnect Canada) with approximately 700 ktpa of combined crushing and refining capacity.

New GrainCorp will need to streamline its standalone corporate infrastructure (given UMG will be operating as a separate listed company) and manage its capital structure independent of UMG.

New GrainCorp will:

- realign its business according to two operating segments - Agribusiness (grains trading, including handling and storage) and Processing (oils business):

NEW GRAINCORP – REVENUES BY SEGMENT
BASED ON PRO FORMA FY19 REVENUES



Source: GrainCorp

- continue to focus on the initiatives underway to improve supply chain efficiency and reduce fixed costs which are expected to deliver incremental “through the cycle” benefits of at least \$20-35 million post FY19 (see Section 3.2). New GrainCorp will also continue the integration of the GrainCorp Grains and GrainCorp Oils and head office simplification initiatives which are expected to deliver increased EBITDA of \$20 million within one year of the Proposed Demerger; and
- benefit from cash flow and earnings smoothing under the Crop Production Contract from FY20 notwithstanding the increase in annual operating costs in order to access this benefit.

A detailed description of New GrainCorp is set out in Section 3.1 of the Demerger Scheme Booklet.

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5.3.2 Earnings and Dividends

The pro forma historical performance of New GrainCorp for the four years ended 30 September 2019 is summarised below:

NEW GRAINCORP – PRO FORMA SUMMARISED HISTORICAL FINANCIAL PERFORMANCE (\$ MILLIONS)

	YEAR ENDED 30 SEPTEMBER			
	2016 PRO FORMA HISTORICAL	2017 PRO FORMA HISTORICAL	2018 PRO FORMA HISTORICAL	2019 PRO FORMA HISTORICAL
Agribusiness	2,647.4	3,109.8	2,784.5	3,189.6
Processing	538.9	530.1	499.0	542.0
Intercompany eliminations	(212.0)	(192.9)	(214.1)	(215.4)
Sales revenue	2,974.3	3,447.0	3,069.4	3,516.2
Underlying EBITDA	52.0	127.2	63.2	(62.5)
Depreciation and amortisation	(80.5)	(87.1)	(88.5)	(86.3)
Underlying EBIT	(28.5)	40.1	(25.3)	(148.8)
Net finance costs	(11.5)	(11.0)	(12.0)	(14.5)
Income tax expense	21.1	(5.7)	10.5	48.8
Operating profit after tax	(18.9)	23.4	(26.8)	(114.5)
Significant items (net of tax)	(28.6)	(13.0)	--	--
NPAT	(47.5)	10.4	(26.8)	(114.5)
Total capital expenditure	127.5	158.1	86.5	44.2
STATISTICS				
<i>Sales revenue growth</i>		15.9%	(11.0%)	14.6%
<i>Underlying EBITDA growth</i>		144.6%	(50.3%)	(198.9%)
<i>Underlying EBIT growth</i>		(240.7%)	(163.1%)	488.1%
<i>Underlying EBITDA margin</i>	1.7%	3.7%	2.1%	(1.8%)
<i>Underlying EBIT margin</i>	(1.0%)	1.2%	(0.8%)	(4.2%)
<i>Interest cover (on EBIT)</i>				n.m.
<i>Interest cover (on EBITDA)</i>				n.m.

Source: Demerger Scheme Booklet

Note 1: Income generated from the Transitional Services Agreement are estimated to be approximately \$1 million per annum. No pro-forma adjustment is included in the historical period given the transitional nature of this arrangement.

The pro forma historical financial performance for New GrainCorp has been prepared by GrainCorp on the following basis:

- the Proposed Demerger is assumed to be effective from 1 October 2015;
- it includes adjustments to reflect:
 - the pro forma cash flow impact relating to the Crop Production Contract based on ABARES crop production for the respective years assuming the contract had been in place. This resulted in net cash outflows of \$5.9 million, \$75.9 million and \$5.9 million in FY16 to FY18, respectively. Droughts across the East Coast of Australia in FY19 led to much smaller crop production and a theoretical cash receipt of \$74.1 million;
 - an increase in corporate and operating costs of \$1.6 million per annum to reflect the increased insurance premiums and employee-related costs New GrainCorp will need to incur as a standalone company;
 - New GrainCorp's pro forma finance cost associated with new debt financing arrangements that will be in place post demerger and the removal of finance costs associated with existing banking facilities;

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- it does not include:
 - discontinued operations (i.e. Australian Bulk Liquid Terminals), disposed investments (i.e. 60% equity-accounted investment in Allied Mills);
 - adjustments to remove abnormal factors (totalling \$85 million) that GrainCorp identified as impacting the FY19 result;
 - potential incremental insurance costs from renewal in 2020, which could be in the range of \$2 million to \$4 million for UMG (see Section 6.6.3);
 - any allowance for significant items recorded in FY19; and
 - transaction costs associated with the Proposed Demerger which are estimated to total \$49 million (before tax) of which \$20 million was expensed by GrainCorp in FY19 (as a significant item);
- the financial results for overseas operations have been translated to Australian dollars at the rates used by GrainCorp in the relevant periods; and
- has been prepared to NPAT level at the effective tax rate applicable to each entity.

Stay-in-business capital expenditure comprised approximately half of total capital expenditures between FY16 and FY19, averaging \$38 million per annum. Other significant expenditures included capacity expansions, various site upgrades and the investment in GrainsConnect Canada.

The detailed pro forma historical performance for New GrainCorp (including a description of the assumptions and adjustments made) is set out in Section 3.13 of the Demerger Scheme Booklet. The historical pro forma financial performance has been prepared by GrainCorp and reviewed by PwC. PwC's Investigating Accountant's Report is set out as Attachment B of the Demerger Scheme Booklet.

New GrainCorp's performance has historically been dependent on crop production levels across East Coast Australia, where it holds substantial market share of grain exports. Revenue fluctuated significantly between FY16 to FY19, as the volatility in crop production in these regions flowed through to grain volumes and exports. Due to the inherent operating leverage of the business, New GrainCorp generated losses at the EBIT level in FY18 and FY19 as production levels declined. FY19 EBIT was also negatively impacted by international trade disruptions.

Crop production is expected to remain weak and below long-term averages in FY20. However, the renegotiated rail contracts and other initiatives are expected to contribute positively to earnings.

New GrainCorp's financial results for FY20 will reflect UMG on a fully consolidated basis from 1 October 2019 until implementation of the demerger (expected in March 2020). FY21 will be the first full year of financial results for New GrainCorp following demerger of UMG.

Following the demerger, New GrainCorp will remain the head company of the New GrainCorp consolidated tax group (from which UMG will have exited) and the existing \$272 million of carried forward Australian income tax losses (tax shield) and \$8 million carried forward capital losses are expected to be preserved.

Dividend policy will be determined by the board of New GrainCorp having regard around a range of issues including future cash flows and credit metrics. However, the Demerger Scheme Booklet states that New GrainCorp is expected to distribute between 50% and 70% of underlying NPAT.

New GrainCorp plans to frank its dividends to the extent practical. However, it currently has a relatively low franking credit balance (circa \$15 million). More importantly, New GrainCorp's ability to pay franked dividends will depend on the amount of Australian income tax paid in the future. This will be impacted:

- by the reduction in Australian taxable income as a result of UMG exiting the New GrainCorp consolidated tax group;

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- by the proportion of earnings derived offshore (although the bulk of its activities are based in Australia); and
- in the short to medium term, by the level of carried forward Australian income tax losses (\$272 million as at 30 September 2019).

Accordingly:

- dividends in the short to medium term are likely to have a low level of franking; and
- even in the longer term, franking may be less than 100%.

5.3.3 Financial Position

The pro forma financial position of New GrainCorp at 30 September 2019 is summarised below:

NEW GRAINCORP – PRO FORMA FINANCIAL POSITION (\$ MILLIONS)

	AT 30 SEPTEMBER 2019 PRO FORMA
Trade and other receivables and derivative financial instruments (net)	434.9
Inventories	390.5
Trade and other payables and provisions	(320.0)
Net working capital	505.4
Property, plant and equipment (net)	765.5
Intangible assets (net)	118.5
Assets held for sale	14.7
Equity accounted investments / Investments in other entities	129.5
Deferred tax liabilities (net)	91.6
Lease liabilities	(96.8)
Other assets and liabilities (non current) (net)	0.0
Total funds employed	1,528.4
Cash and deposits	39.2
Borrowings	(455.2)
Net borrowings⁵⁵	(416.0)
Net assets	1,112.4
Outside equity interests	0.0
Equity attributable to New GrainCorp shareholders	1,112.4
STATISTICS	
<i>Shares on issue at period end (million)</i>	228.9
<i>Net assets per share</i>	4.86
<i>NTA per share</i>	3.94

Source: Demerger Scheme Booklet and Grant Samuel analysis

Note: Grant Samuel has adjusted the presentation of the pro forma financial position for analytical purposes.

The pro forma financial position of New GrainCorp has been prepared on the basis that the Proposed Demerger was effective on 30 September 2019. Specifically, it:

- reflects:
 - the internal restructuring steps to be undertaken prior to the demerger (recorded on the basis of carrying value) including the reduction in capital;

⁵⁵ Pro forma net debt for New GrainCorp at 30 September 2019 comprises commodity inventory of \$334 million and core debt of \$82 million.

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- cash proceeds of \$314 million from the sale of Australian Bulk Liquid Terminals, which exclude \$18 million for Port Kembla (retained by New GrainCorp) and deferred consideration of \$19 million which is contingent on the satisfaction of certain milestones relating to the extension and commencement of leases agreements on certain terminal sites in future periods;
 - no profit on the distribution of shares in UMG, as the pro-forma investment in UMG is based on the book value of net assets⁵⁶;
 - restructured debt financing arrangements of \$1,520 million⁵⁷, which will comprise \$150 million⁵⁷ in term facilities, \$390 million in working capital facilities (including \$150 million for standby letter of credit to support the Crop Production Contract) and \$980 million in inventory facilities;
 - settlement of intergroup loan balances with UMG with the drawdown of \$455.2 million of borrowings under New GrainCorp's new debt facilities;
 - lease liabilities associated with the long-term storage agreement with ANZ Terminals, which are assessed as a sale and leaseback transaction under AASB 16; and
 - adjustments to the deferred tax balances which will no longer be considered recoverable upon implementation of the Demerger; and
- does not reflect:
- the trading performance of New GrainCorp since 30 September 2019; and
 - capitalisation of other operating leases under AASB 16 (i.e. other than the ANZ Terminals leases).

Investments in other entities includes New GrainCorp's 10% minority interest in UMG, which is based on UMG's net assets⁵⁸. Equity accounted investments reflect the book value of GrainCorp's 50% interest in GrainsConnect Canada.

A detailed pro forma statement of financial position (including a description of the assumptions and adjustments made) is set out in Section 3.13 of the Demerger Scheme Booklet. The pro forma financial position has been prepared by GrainCorp and reviewed by PwC. PwC's Investigating Accountant's Report is set out as Attachment B of the Demerger Scheme Booklet.

Upon demerger, New GrainCorp's existing debt facilities will be repaid and replaced with an amended facility. New GrainCorp has secured consents from financial institutions to provide \$1,520 million⁵⁷ in bilateral loan facilities. At the time of the demerger, the total amount drawn under the facility is expected to be approximately \$455.2 million (i.e. undrawn commitments of approximately \$1,064.8 million).

The pro forma financial position shows that New GrainCorp will:

- have a substantial investment in working capital reflecting the normal requirements for agricultural commodities storage, handling and trading business; and
- have net borrowings of \$416 million. However, core net debt is only \$82 million after excluding commodity inventory of \$334 million.

In addition:

- New GrainCorp has operating lease commitments totalling \$199.3 million (8% of which expire in 12 months) which are expected to result in total estimated capitalised leases (per AASB 16) of

⁵⁶ New GrainCorp will account for the minority investment in UMG as investment held at fair value, with reference to the UMG shares as traded on the ASX. There are no escrow or similar restrictions on the disposal of UMG shares by New GrainCorp.

⁵⁷ The term facilities and the total facilities were reduced by \$250 million to these amounts following the receipt of proceeds from the sale of Australian Bulk Liquid Terminals.

⁵⁸ For the purposes of assessing a pro forma financial position as of 30 September 2019, this is estimated to be \$85.5 million, which is 10% of the book value of UMG's pro forma net assets. See Section 3.12 of the Demerger Scheme Booklet for more detail.

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approximately \$155 million in right of use assets and associated lease liabilities of approximately \$210 million (including the ANZ Terminals leases); and

- New GrainCorp will own a 10% shareholding in the listed UMG. There are no restrictions on New GrainCorp's ability to sell this shareholding (e.g. escrow arrangements).

5.3.4 Directors and Management

New GrainCorp's board will comprise a non-executive Chairman (Peter Richards), one executive director and three non-executive directors. Mr Richards is currently the deputy Chairman of GrainCorp. Two new non-executive directors of GrainCorp were announced on 11 December 2019 and one of these will remain with New GrainCorp while one will become a director of UMG. The remaining two non-executive director positions for New GrainCorp will be assumed by incumbent members of the GrainCorp board.

The senior management of New GrainCorp will comprise existing senior management of GrainCorp (e.g. CFO) and GrainCorp Grains & Oils except that Robert Spurway will join the organisation as the new Managing Director and CEO of New GrainCorp. Mr Spurway will also be appointed as an executive director of New GrainCorp.

Further details of the board and senior management of New GrainCorp are set out in Section 3.7 of the Demerger Scheme Booklet.

5.3.5 Capital Structure and Ownership

There will be no change to the ordinary shares on issue following implementation of the Proposed Demerger nor will there be any change to the existing substantial shareholders to the extent that these shareholders do not change their holdings prior to the demerger implementation.

Executives and employees who are participants in GrainCorp's existing employee incentive plans who will be New GrainCorp employees will have their entitlements dealt with as set out in Section 5.7 of the Demerger Scheme Booklet. Following the demerger, New GrainCorp is expected to establish appropriate employee incentive plans to encourage a focus on performance and the delivery of value to shareholders.

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6 Evaluation of the Proposed Demerger

6.1 Summary and Conclusion

Since its origin, the primary factor influencing the earnings and cash flows of GrainCorp has been the size of the annual grain harvest in New South Wales and the broader East Coast Australia region. The prevailing climatic conditions, particularly the susceptibility to drought, mean that the annual harvest can be volatile. This volatility has also been a primary driver of GrainCorp's share price since listing in 1998.

In response, GrainCorp developed a strategy to expand and diversify its business with the objective of creating a more stable earnings base with long term growth potential. To this end, it has:

- extended operations throughout the international wheat supply chain, including downstream processing; and
- acquired businesses that handled two adjacent grain products (barley and canola) and were focussed on downstream processing (malt, edible oils).

The strategy has been very successful in terms of the original objective of creating a more diversified and stable total income stream. However:

- GrainCorp's share price performance has continued to be materially impacted by Australian wheat harvest levels, albeit less than in earlier periods;
- the diversification, in and of itself, did not eliminate the inherent volatility of the core grain business; and
- despite the apparent cohesiveness of the two segments of the business, GrainCorp Grains & Oils and GrainCorp Malt have very different characteristics including geographic base of operations, marketing construct, distribution channels, growth outlook and capital intensity. As a consequence:
 - GrainCorp Malt effectively operates on an autonomous basis and makes little use of the GrainCorp network;
 - there are minimal operating synergies between the two business units; and
 - there have been some constraints on the ability of GrainCorp Malt to pursue growth opportunities as a result of the impact of drought affected grain harvests on GrainCorp's free cash flows and borrowing capacity.

In early 2017, GrainCorp began a process of examining options for the ownership and operation of its business and as a result:

- the Australian Bulk Liquid Terminals business has been sold;
- there have been further initiatives to improve the operating efficiency and reduce the volatility of the non malt businesses (e.g. merging GrainCorp Grains and GrainCorp Oils, business simplification, international sourcing and new rail contracts);
- the Crop Production Contract has been put in place to eliminate (or at least materially reduce) GrainCorp's exposure to the impact of severe downturns in the East Coast Australia crop harvest (with the offset being some loss of upside when bumper harvests occur and an increase in operating costs from the annual premium); and
- the board and management have explored a wide range of structural ownership options including:
 - outright or partial sale of individual business units to third party acquirers or through an initial public offering;
 - separation or sale of infrastructure-like assets;

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- joint ventures and mergers;
- strategic acquisitions;
- demergers; and
- continuation of the status quo.

Ultimately, the board settled on the Proposed Demerger as the preferred structural option and the one most likely to deliver the best value for shareholders over time. Specifically:

- it enables shareholders to retain their economic interests in all the businesses and potentially capture the upside from recent initiatives that are expected to be realised over the next 2-3 years. At the same time, they have the ability to change their exposures between the two demerged businesses;
- with the Crop Production Contract in place and a low level of core debt, GrainCorp Grains & Oils is a more viable standalone entity;
- options such as the potential sale of either business (e.g. through a takeover offer) are preserved, if not enhanced;
- no tax liabilities are triggered. The Proposed Demerger does not give rise to the tax drawbacks of alternatives such as outright sale (which could result in a large unfranked dividend component for any consequent distributions) and capital gains tax concessions for shareholders should remain achievable in any subsequent transaction (e.g. a takeover of UMG); and
- a demerger is not dependent on third parties and is under the control of the company. It can be progressed with a high degree of certainty.

The Proposed Demerger is definitionally fair in so far as shareholders (except ineligible overseas shareholders) will hold exactly the same underlying economic interests in the business before and after the proposal is implemented. Evaluation of whether or not the Proposed Demerger is in the best interests of shareholders therefore involves subjective judgements about the benefits such as management focus, financial and strategic flexibility and opportunities for value enhancement weighed against the costs, disadvantages and risks, rather than analysis of quantifiable financial or other verifiable factors.

There are a number of advantages and benefits of the Proposed Demerger (which are common for most demergers) including:

- increased strategic and financial flexibility. In particular, UMG:
 - will be able to determine its own financial structure reflecting the strength of its own attributes (stable earnings, strong cash flows, expansion potential); and
 - will be better able to pursue strategic opportunities by offering its own scrip (which will be more attractive to vendors or merger partners than GrainCorp scrip);
- increased prospects of capturing a premium for control through a takeover offer for either company but particularly UMG;
- greater board and management focus and enhanced ability to provide targeted management incentives that are directly related to business under the management team's control;
- flexibility for shareholders to choose their level of exposure to either the GrainCorp Grains & Oils business (i.e. New GrainCorp) or the GrainCorp Malt business (i.e. UMG) as they see fit; and
- higher dividends in due course as UMG and New GrainCorp propose higher payout ratios (60% and 50-70% of underlying NPAT respectively) than GrainCorp's current policy (40-60% of underlying NPAT). The aggregate level of franking should also be substantially the same as under the status quo.

These advantages are not individually compelling but, collectively, are meaningful.

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Value analysis of the two new entities is inherently uncertain, particularly given the lack of direct peers and the recent track record of GrainCorp Grains & Oils. However, relative to GrainCorp's recent share price trading range of around \$8.00 there does seem to be some value upside potential immediately following the Proposed Demerger. Even if that does not occur, the benefits outlined above should lead to value enhancement over time compared to the status quo.

At the same time, there are a number of disadvantages, costs and risks arising from the Proposed Demerger. The more significant include:

- reduced size and diversity which means each entity will be less able to absorb the consequences of adverse events as they will have a greater relative impact. At the same time:
 - both entities have relatively modest financial leverage;
 - UMG enjoys consistent underlying demand, stable earnings and low capital intensity; and
 - New GrainCorp is increasing the variability of its cost base and the Crop Production Contract provides an important degree of protection against poor harvests;
- the smaller size of the two separate entities should, other things being equal, lead to higher borrowing costs (in terms of margins). However, the margins for the restructured facilities as part of the Proposed Demerger are not in overall terms materially different to current GrainCorp margins;
- additional corporate and operating costs (circa \$14.9 million per annum for UMG and \$1.6 million for New GrainCorp). On the other hand, New GrainCorp expects to save \$20 million per annum through restructuring and simplification of the existing GrainCorp head office as a result of the Proposed Demerger;
- increased risk of either entity falling out of the key S&P/ASX 200 index (the current cut off is a market capitalisation of approximately \$700 million). This risk is particularly acute for New GrainCorp but ultimately it will depend on future operational performance of the business among other factors. Demergers also typically lead to some level of register realignment in the months following implementation but in GrainCorp's case there are reasons to believe this should be relatively modest. Indeed, there are strong prospects of significant new demand for shares in UMG from agribusiness and food/drink investors who may have previously been deterred by GrainCorp's significant (and volatile) grains and oils businesses. UMG will be the only significant pure malt business listed on any major stock exchange globally;
- the lack of track record of the board and management teams in working together. However, there is a significant degree of continuity through the Chairmen and directors of both entities and the CEO of UMG;
- transition and implementation risks; and
- one off transaction and implementation costs which are estimated to be approximately \$49 million.

These disadvantages, costs and risks are not trivial but are not major drawbacks.

The evaluation of the Proposed Demerger is essentially subjective as the benefits are not quantifiable or testable. The benefits are, at least to some extent, a matter of perception. The Proposed Demerger is not a guarantee of future performance. The question is whether shareholders are likely to realise greater value over time if the Proposed Demerger is implemented than if GrainCorp's current structure is maintained. In Grant Samuel's view, the potential benefits of the Proposed Demerger outweigh the potential costs, disadvantages and risks. Shareholders are likely to be better off if the Proposed Demerger proceeds. Accordingly, Grant Samuel has concluded that the Proposed Demerger is in the best interests of GrainCorp shareholders.

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6.2 Approach to Evaluation

GrainCorp shareholders are being asked to split their current investment into two parts, a shareholding in New GrainCorp and a separate shareholding in UMG. The economic interest in GrainCorp's underlying businesses held by each shareholder (other than ineligible overseas shareholders and selling shareholders) in each of New GrainCorp and UMG will be equal to their interest in GrainCorp immediately prior to implementation of the Proposed Demerger (albeit that 10% of the economic interest in UMG will be held through ownership of New GrainCorp shares).

The transaction is a "clean" split in so far as there is:

- no purchase or sale of equity in either New GrainCorp or UMG to third parties;
- no value transfers between the separate entities as ongoing arrangements between New GrainCorp and UMG will be minimal (limited to transition services and the arrangements to the Pinkenba and Geelong properties) and on arm's length terms; and
- no value leakage to third parties from either party; and
- not expected to be any adverse tax consequences for the separate entities (except for some elimination of losses) and for the vast majority of GrainCorp shareholders (see Section 6.7).

Accordingly, the Proposed Demerger is definitionally fair in so far as shareholders (except ineligible overseas shareholders) will hold exactly the same underlying economic interests in the GrainCorp business before and after the demerger is implemented. Evaluation of whether the Proposed Demerger is in the best interests of shareholders therefore involves weighing up the advantages and disadvantages of the demerger for shareholders. This involves judgements about the advantages and benefits such as management focus, financial and strategic flexibility and opportunities for value enhancement weighed against the costs, disadvantages and risks such as reduced scale, duplicated costs and transaction costs, rather than analysis of quantifiable financial or other verifiable factors.

6.3 Rationale for the Demerger

Since its origin, the primary factor influencing GrainCorp's earnings and cash flows has been the size of the annual grain harvest in New South Wales and the broader East Coast Australia region. The climatic conditions prevailing across the region, particularly the susceptibility to drought, mean that the annual harvest can be extremely volatile as shown by the following chart covering the last 30 years across East Coast Australia (New South Wales, Queensland and Victoria):

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EAST COAST AUSTRALIA – ANNUAL WINTER CROP HARVESTS

1989 - 2019



Source: Australian Government Department of Agriculture – ABARES, Australian Crop Report (December 2019)

Note 1: The median winter crop harvest in the East Coast is 17.7mt since 2010 and 16.0mt since 1990.

As grain handling (storage and transport) is a largely fixed cost business, this volatility in volumes translated in severe fluctuations in earnings of GrainCorp's core grains business.

Once GrainCorp became a listed entity in 1998, harvest variations became the primary driver of share price performance and a significant concern for investors. While it can be argued that, as good and bad harvests tend to average out over the longer term, the share price should be driven by "through the cycle" performance and be only moderately impacted by short term fluctuations in harvest levels, that is not the reality of financial markets.

Accordingly, once the deregulation of the Australian wheat industry was completed in 2008, GrainCorp developed and implemented a strategy to expand and diversify its business with the objective of creating a more stable earnings base with long term growth potential. To this end it:

- extended its operations further into the international wheat supply chain including managing rail haulage and logistics, value add services (marketing, shipping etc.) to further complement its previous initiatives to integrate across the value chain such as downstream processing (flour milling); and
- acquired United Malt Holdings (2009), Gardner Smith Group (2012) and Integro Foods (2012) which created two new business streams in adjacent grain products (barley and canola) that were focussed on downstream processing (malt, edible oils).

The acquisition of the malt and oils businesses, and their further development over the next decade, has been very successful in terms of the original objective of creating a more stable earnings base for GrainCorp as a whole. In the absence of GrainCorp Malt's contribution, the decline in earnings from the peak in FY12 to the bottom of the cycle in FY15, the upswings to FY17 (another peak harvest) and the subsequent sharp fall due to the most recent drought (particularly FY19), would have been far more dramatic. In addition, GrainCorp Malt's earnings have generally exhibited a steady upward trend.

However:

- over the last few years the GrainCorp share price performance has still been both:
 - somewhat volatile, albeit less than in the past. The share price has largely fluctuated between \$7 and \$10 since 2012 (excluding the impact of the ADM takeover and the LTAP proposal); and

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- continued to be significantly impacted by year to year Australian grain harvest levels despite the fact that other businesses (i.e. malt and oils) now represent the majority of GrainCorp's underlying earnings and value. For example, the share price peaked at \$10.48 in mid-2017 following the bumper 2016/17 harvest and then fell to a low of \$7.23 over the next nine months as the poor 2017/18 harvest emerged (i.e. decline of 31%);
- the diversification strategy, in and of itself, did not eliminate the inherent volatility of the core wheat business. GrainCorp has continued to implement significant business improvement initiatives over the past decade and has undertaken other actions to improve earnings margins and to reduce volatility (e.g. the new rail contract commencing FY20). Nevertheless, the exposure to Australian grain harvest levels remains a primary driver of earnings performance from year to year; and
- despite the apparent cohesion of the business (end to end operations across three grains – wheat, barley and canola) the individual business units have very different characteristics, in particular GrainCorp Malt which:
 - operates internationally with very significant operations in North America (approximately 60% of production) and the United Kingdom. The Australian arm represents only approximately 20% of production;
 - operates in geographies (apart from Australia) that provide reasonably consistent growing conditions producing relatively stable crop levels;
 - produces a customised product for a very defined set of customers where quality is a critical attribute including:
 - Scotch whisky producers (the primary market for the United Kingdom business); and
 - brewers (both larger brewers and craft brewers);
 - sells to major customers (large brewers, distillers) under long term supply contracts (some of which are virtual tolling arrangements where the customer takes the barley price risk) with tight product specifications. As a result, there is relatively limited "trading" in barley and contract farming plays an increasing role;
 - distributes through its own network directly to smaller customers (primarily craft brewers) in a market where the brand is a key element in the perception of product quality and development of customer loyalty;
 - has strong underlying growth dynamics particularly in craft beer (where GrainCorp Malt has a leading market position) and whisky (which has been enjoying a resurgence in consumer demand with new distilleries continuing to open) that, in turn, provide significant opportunities for expansion capital investment; and
 - is a relatively low capital intensity business. Stay in business capital expenditure runs at less than 15% of EBITDA⁵⁹ compared to circa 30% for GrainCorp's other businesses.

In contrast, GrainCorp Grains & Oils (wheat and oilseeds) is based largely on Australian production and sells mostly unbranded commodity style products in bulk to customers on a spot or short term contract basis (albeit to a well-established base of long term customers). Exports of Australian grains are primarily directed to Asia, Middle East and Northern Africa.

As a consequence:

- GrainCorp Malt is not closely integrated with the other GrainCorp businesses at an operational level. It makes little or no use of GrainCorp's international marketing network instead largely

⁵⁹ The Demerger Scheme Booklet states that stay-in-business capital expenditures for UMG is expected to be \$20-25 million per annum compared to divisional EBITDA In FY19 of \$175.5 million.

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operating through its own channels (and under long term sales contracts). Effectively, it operates as an autonomous business unit;

- there are minimal operating synergies between GrainCorp Malt and the rest of GrainCorp's businesses; and
- there have been some constraints on the ability of GrainCorp Malt to pursue strategic growth opportunities as a result of GrainCorp's overall financial performance. The earnings volatility of the wheat business has meant:
 - significantly reduced free cash flows for GrainCorp as a whole in years of poor Australian grain harvests; and
 - limitations on the level of debt that GrainCorp can incur.

By early 2017, it was also apparent to the board of GrainCorp that:

- there was likely to be a significant degree of consolidation across the global malt industry in coming years, in line with trends across the agribusiness sector. There was a risk that GrainCorp Malt, the fourth largest maltster globally, would be left as a "stranded" asset if it did not participate in some way, in which case GrainCorp shareholders would miss out on capturing at least some of the potential benefits of consolidation;
- the core wheat business was not rewarding the investment that had been made, with secular trends such as on farm storage leading to underutilisation of GrainCorp's asset base; and
- market changes and expansion of capacity to capitalise on external opportunities had resulted in the internal usage of the facilities owned by Australian Bulk Liquid Terminals declining to less than 35%. As a result, it had become more of a third party infrastructure business (which, in turn, made it more attractive to infrastructure investors).

Accordingly, following a board planning day in April 2017, GrainCorp began a process of examining options to enhance shareholder value through restructuring the ownership and operation of its businesses. The outcome of this process has seen:

- sale of the Australian Bulk Liquid Terminals, which completed on 31 December 2019;
- further initiatives to improve the operating efficiency and reduce the volatility of the non malt businesses including:
 - merging the Grains and Oils operations in Australia into a single business unit;
 - simplifying operations;
 - changing cost structures so as to increase their variability with volumes (e.g. the new rail haulage contract starting in FY20); and
 - increasing international sourcing of grain (primarily wheat) particularly through investment in Canada (but also India and the Black Sea region) to provide a more stable level of wheat supply for the network to handle;
- development of a derivative contract to eliminate (or at least materially reduce) GrainCorp's exposure to the impact of severe downturns in the east Australian grain crop. GrainCorp started exploring the possibilities in 2015 although limited progress was made. The LTAP proposal announced in December 2018, which it is understood was premised on a crop insurance derivative based on GrainCorp's annual throughput, highlighted the importance and the potential viability of such a product and effectively spurred GrainCorp management to pursue it more vigorously. The resultant Crop Production Contract (see Section 3.2 for more details) is based on the aggregate East Coast Winter Crop rather than GrainCorp's throughput (eliminating the insurer's exposure to variations in GrainCorp's market share which enables the contract to be more cost efficient); and

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- exploration of a wide range of structural ownership options including:
 - outright or partial sale of individual business units such as grains, oils or malt. While there was no formal sale process, the LTAP proposal and the announcement of the Portfolio Review prompted a number of parties, including strategic and financial buyers, to come forward. GrainCorp and its advisers engaged with these parties and received some non-binding indicative proposals. However, none progressed to the point of formal offers being made on terms acceptable to GrainCorp;
 - sale of individual businesses (specifically GrainCorp Malt) through an IPO;
 - separation and sale of the infrastructure-like elements of GrainCorp's portfolio (e.g. ports and terminals, silos);
 - joint ventures or mergers with other industry participants (particularly for GrainCorp Malt);
 - strategic acquisitions of competing businesses;
 - demerger of GrainCorp Malt or, alternatively, demerger of GrainCorp Grains & Oils; and
 - continuation of the status quo.

In relation to the structural options, each has its own advantages and drawbacks. For example:

- there are adverse tax consequences in disposing of businesses. The sales themselves would be subject to relatively small amounts of Australian capital gains tax but returning the funds to shareholders would result in shareholders incurring substantial tax as the majority of the return would be treated as an unfranked dividend taxed at marginal income tax rates in shareholders' hands (only a limited amount could be treated as a capital return and GrainCorp has minimal surplus franking credits even including any arising from capital gains tax on the sale). Shareholders would also miss out on any concessional capital gains tax treatment that would apply to sale of their own shareholdings; and
- an IPO (e.g. of GrainCorp Malt) would be subject to significant uncertainty as to value and timing (or even achievability – a number of large Australian IPOs have failed in recent months). It would be dependent on market conditions at the time as well as investor perception developed throughout the marketing program. An IPO would also be subject to the same tax issues on the proceeds as a sale.

Ultimately, the board settled on the Proposed Demerger of UMG as the preferred way forward and the one most likely to deliver the best value for shareholders over time. In particular:

- separation of the two different businesses (New GrainCorp and UMG) is achieved with shareholders retaining the same economic interest in both. The market would have the ability to attribute an appropriate value to each business based on its individual attributes and without the distractions of other businesses;
- shareholders can retain exposure to the upside from:
 - the recent initiatives to strengthen New GrainCorp's business operations including the cost initiatives (e.g. supply chain, rail contracts), operational simplification, capacity expansion (e.g. Numurkah), integration of grains and oils and the investments in Canada; and
 - the investment in increased capacity in Scotland, which is expected to be completed in 2021.

It would be challenging to realise full value for these initiatives in an outright sale today;

- downside protection from the Crop Production Contract together with minimal core debt (as a result of the sale of the terminals business and transfer of debt to UMG), enables New GrainCorp to stand on its own as a viable entity despite its smaller size;

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- options such as potential future sale of either business on terms that capture the full underlying value (e.g. through a takeover offer for either listed company) are preserved. Indeed, the prospects of receiving a takeover are arguably enhanced (at least relative to the status quo) and the decision on any future sale is effectively put directly in the hands of shareholders (collectively);
- the Proposed Demerger process does not trigger any tax liabilities for the company or shareholders. For those shareholders subject to Australian capital gains tax, their cost base will be split between the two entities. Any subsequent transaction such as a takeover offer would enable shareholders to capture the benefits of any capital gains tax concessions; and
- the demerger is not dependent on third parties (as a sale would be) or market conditions/investor perceptions (as any IPO or similar process would be). The proposal is therefore under the control of the company and can be progressed with a high degree of certainty.

6.4 Advantages and Benefits

6.4.1 Strategic and Financial Flexibility

The Proposed Demerger will enable UMG and New GrainCorp to pursue growth and strategic opportunities independently, whether by way of capital investment program, new business structures, product extensions, acquisitions or divestments.

GrainCorp's financial performance, particularly the core grains business with its inherent volatility, puts limits on financial leverage and, in poor harvest years, the reduced cash flows inevitably constrain the amounts available for capital expenditure programs across the group. While GrainCorp Malt has secured funding for two significant capital expenditure programs in the last few years (Pocatello and Arbroath / Inverness), there have been other opportunities that it has not pursued.

As a standalone entity UMG:

- will be able to determine its own financial structure based on the characteristics of its own cash flows and business risks. It will initially be moderately geared with pro forma net debt at 30 September 2019 of \$434 million representing 2.7 times EBITDA and strong interest cover metrics. Given its inherent cash flow stability, UMG will have the capacity to increase leverage if the right strategic opportunity arises. This flexibility enhances its ability to pursue strategic opportunities (e.g. acquisitions);
- can commit to growth initiatives with confidence that the underlying business should continue to produce stable earnings and operating cash flows; and
- will have greater ability and flexibility to pursue strategic opportunities such as scrip based mergers or acquisitions. Under the current structure such transactions are problematic:
 - vendors of malt businesses are unlikely to be attracted to scrip in GrainCorp with its significant exposure to Australian wheat and oilseeds; and
 - alternatively, receiving a scrip interest (e.g. a 50% holding) in a merged entity that is then locked up under GrainCorp ownership may not be attractive to GrainCorp (or its shareholders).

In contrast, scrip in a pure malt business such as UMG may be highly attractive to vendors (and UMG will have the ability to include cash in the mix). In an environment where:

- UMG will be the only significant pure listed malt business globally; and
- there is an expectation of industry ownership restructuring and consolidation,

this flexibility may be very valuable for shareholders.

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In addition, while it is not possible to measure scientifically, it is reasonable to argue that UMG will have a lower cost of capital than the present GrainCorp because of its more stable earnings and cash flows. This should make it more competitive (than existing GrainCorp) in any acquisition process.

New GrainCorp will also have greater flexibility to:

- adopt a capital structure (in terms of leverage) more suitable to its own cash flow dynamics and business risks; and
- pursue other opportunities consistent with its existing operations be they:
 - international grain sourcing; or
 - other Australian based grain or crop handling, processing and/or marketing businesses that could be integrated into the business.

6.4.2 Takeover Potential

Takeovers are an important mechanism by which shareholders can realise value for businesses in excess of sharemarket prices, as bidders will typically pay a premium to acquire control. Impediments to a takeover are generally negative for shareholders.

A premium for control could be captured by GrainCorp selling one or more of its businesses to another industry participant (or alternative purchasers such as private equity funds). While GrainCorp has considered such courses of action, particularly in relation to malt (arguably the most saleable business):

- there is no certainty any sale would occur and it would probably require GrainCorp to initiate a formal process;
- the key decisions relating to the sale, in particular the decision as to an acceptable price, would be made by GrainCorp directors (at least in the first instance); and
- there may be significant value leakage due to taxation consequences particularly in relation to distributing proceeds to shareholders (see above).

Following the Proposed Demerger:

- it will be open to any interested party to put forward a proposition to acquire UMG (e.g. by way of takeover) at any time. UMG will have an open share register (as will New GrainCorp). While Ellerston and Perpetual have significant interests (collectively circa 30%) they are financial investors rather than strategic owners;
- the decision as to whether or not to accept an offer and at what price will be in the hands of shareholders (collectively) rather than directors; and
- a takeover transaction should allow Australian shareholders to benefit from any capital gains tax concessions.

The Proposed Demerger should increase the prospect of shareholders receiving a takeover offer, at least in respect of UMG. GrainCorp's existing mix of businesses is likely to appeal to only a small set of acquirers. UMG and New GrainCorp, as focussed separate companies, will appeal to a wider set of potential acquirers and the acquisition process will be simpler (no residual businesses to sell).

A review of demergers across the past two decades indicates that a significant number of demerged entities (and/or in some cases, their former parent companies) have been acquired by way of takeover within a few years of separation.

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6.4.3 Board and Management Focus and Incentives

The Proposed Demerger will result in the creation of two companies with separate boards and senior management teams focussed on their respective businesses. The board and management of each company will be able to focus on their business' strategic objectives and priorities, make decisions appropriate to each business' risk/return profile and address specific operational and regulatory issues in a timely manner.

Under GrainCorp's current structure, the time of the board of GrainCorp needs to be divided between each of the businesses and may not always be reflective of the size and earnings of the business. Similarly, while the management teams of GrainCorp Grains & Oils and GrainCorp Malt currently operate largely independently from each other, GrainCorp's CEO and other senior head office functions need to split their time between the businesses.

The Proposed Demerger should increase the incentives for the boards and management of the demerged companies to improve performance due to enhanced transparency and increased scrutiny. Analysts and investors will be focussed on the performance of each business separately and the board and management will be directly answerable to investors (e.g. through investor presentations and shareholder meetings). In theory, all of this focus should be able to occur under the current structure. GrainCorp discloses detailed performance data for each business. However, the reality is that, in practice, separation generally brings a greater intensity. Each company will also be obliged to fund future growth from its own resources, providing additional discipline on capital and operating expenditure.

The Proposed Demerger will also enable each of the companies to align management remuneration and incentives more closely with the financial performance of the business that is directly under the respective management team's control and the consequent share price performance. At present, equity based incentive schemes in GrainCorp mean that remuneration for management in either Grains or Malt is heavily affected by the performance of the other business (for better or worse). The more targeted regime achievable under the Proposed Demerger is expected to create a more transparent link between management performance and remuneration and better align the interests of shareholders and management.

While the evidence is inherently anecdotal, previous demerger transactions indicate that the cumulative effect of these factors will be improved management performance over time.

6.4.4 Shareholder Flexibility

Immediately following the Proposed Demerger, GrainCorp shareholders (except ineligible overseas shareholders and selling shareholders) will retain their existing economic exposure to GrainCorp's assets by holding both UMG and New GrainCorp shares. Shareholders' interests will simply be split in two (albeit with part of the malt exposure held via New GrainCorp). The Proposed Demerger will therefore provide shareholders with increased flexibility to manage their investment exposures to each company.

Notwithstanding that both businesses operate in the broader grains sector, the two entities will have different investment characteristics and it is likely that they will appeal to different sets of investors:

- UMG will provide investors with an exposure to an international processing business that enjoys geographic diversity, a strong market position in its chosen regions (underpinned by quality products, long term customer contracts and strong branding) and stable earnings and cash flows with underlying growth potential and prospects for steady dividends; and
- New GrainCorp will provide exposure to a largely Australian based wheat and oilseeds handling and marketing business (but with an emerging international footprint) that has a very strong market position offering the opportunities and risks associated with the vicissitudes of the Australian climate and its impact on agriculture albeit:

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- now with protection from the most extreme downsides through the Crop Production Contract; and
- with an increasing level of international sourcing that should make an increasing contribution to throughput stability.

At present, GrainCorp shareholders by definition have an exposure to both businesses. They cannot make their own investment decision between these exposures, their only alternative is to have no exposure at all. Following the Proposed Demerger, shareholders will be able to make their own investment exposure decisions and shift their relative exposures between the domestically focussed New GrainCorp or the higher growth international malt business, as they see fit. The ability to make more precisely targeted investments into these businesses should also be attractive to investors who wish to invest in specific sectors and may attract investors who would not choose to invest in GrainCorp in its current form.

6.4.5 Dividends

Following implementation of the Proposed Demerger, the level of dividends paid will be a matter for the boards of each company. In this context:

- New GrainCorp intends to pay dividends of 50-70% of underlying NPAT; and
- UMG intends to target a payout ratio of 60% of underlying NPAT.

In comparison, GrainCorp has historically targeted a payout ratio of 40-60% of underlying NPAT.

The aggregate NPAT of the two businesses should be approximately the same as GrainCorp would have been (as no equity capital is raised or returned). Accordingly, other things being equal, shareholders should see an effective uplift in their dividends relative to the status quo (i.e. higher than they would have been in the absence of the Proposed Demerger). However, this may not occur in the short term (because of part year effects etc.) and the absolute level of dividends will depend on the performance of each business and whether or not the policies remain in place.

In relation to the level of franking of dividends, New GrainCorp's ability to frank future dividends will be impacted:

- by the reduction in tax instalment income as a result of UMG's exit from its consolidated tax group;
- in the short-to-medium term, by the level of carried forward Australian income tax losses (\$270 million); and
- by the extent of its non Australian sourced earnings.

UMG's ability to frank future dividends will depend on the amount of Australian income tax paid in the future. It will start with a nil franking balance and a small proportion of earnings are expected to be sourced from Australian sources⁶⁰. As a result, UMG's dividends are likely to be franked at a very low rate.

However, the overall effect on franking credits received by shareholders should be broadly neutral as the same overall level of Australian income tax should be paid across both entities (in aggregate) and both parent companies are Australian incorporated entities.

6.5 Market Value Considerations

For any demerger to be in the best interests of shareholders it must ultimately be expected to enhance shareholder value relative to the status quo (albeit that this can never be proven in hindsight given the absence of a counterfactual).

⁶⁰ Australian malt represents less than 20% of UMG's total earnings.

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Sometimes, it is expected that a demerger will create value immediately or in the very short term because the market is believed to be mispricing the existing combined business for some reason. For example, one of the businesses, often a smaller business, is not being closely scrutinised and may warrant a higher multiple than the group but is just rolled up in the overall multiple applied to the dominant business. This undervaluation may also occur where a business unit is loss making or in the early stages of development and therefore not contributing to group earnings. Similarly, adverse market attitudes to the “core” business may be tainting all of the businesses in a group in terms of value parameters (or vice versa).

These arguments tend to be less applicable when the listed company is relatively large (and therefore closely followed and scrutinised by a range of analysts and sophisticated investment institutions) and both businesses are substantial contributors in which case disclosure rules mean that investors have reasonably detailed information on the performance of, and outlook for, each of the businesses. Analysts (and others) can easily undertake a comprehensive “sum of the parts” valuation.

Accordingly, as most larger entities enjoy a well informed and liquid market, the arguments for a demerger are typically not so much about immediate value uplifts but rather around the incremental value expected to be created in future through factors such as enhanced strategic and financial flexibility, management and board focus, better alignment of incentive structures in remuneration, and increased takeover potential. In these situations, the incremental value emerges only over time although there may be a small “bump” at the time of announcement (effectively a risk adjusted present value market estimate of the benefits).

In the case of GrainCorp, there is some evidence that there could be a value uplift for shareholders in the shorter term (relative to recent share price levels) as well as in the longer term. The argument centres around the extent to which, notwithstanding the level of disclosure by GrainCorp, the market price of the group’s shares is overly affected by the size of the recent or expected East Coast Australia grains crop, the prevailing climatic conditions, the short term outlook and the general perceptions of risk and volatility attached to the grains business. In short, the market will be able to attribute a value to UMG without any of the “noise” from the GrainCorp Grains & Oils businesses.

The following analysis examines the implied values for New GrainCorp’s business operations and the inferred value metrics based on:

- recent trading prices for GrainCorp shares which have generally been in the range \$7.50-8.00 until the jump in mid January 2020 to a peak of \$8.59. The share price has since receded to around \$8.20. The VWAP since the demise of the LTAP proposal on 6 May 2019 is \$8.00; and
- a range of potential trading multiples for UMG.

The analysis is summarised on the following page:

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IMPLIED ENTERPRISE VALUE OF NEW GRAINCORP

	GRAINCORP ENTERPRISE VALUE ⁶¹ (\$ MILLIONS)	UMG PRO FORMA FY19 EBITDA MULTIPLE	UMG ENTERPRISE VALUE ⁶² (\$ MILLIONS)	IMPLIED ENTERPRISE VALUE OF NEW GRAINCORP (\$ MILLIONS)
A. \$7.50 GRAINCORP PRICE				
	2,233	8	1,258	975
	2,233	9	1,415	818
	2,233	10	1,572	660
	2,233	11	1,729	503
	2,233	12	1,886	346
	2,233	13	2,044	189
B. \$8.00 GRAINCORP SHARE PRICE				
	2,347	8	1,258	1,089
	2,347	9	1,415	932
	2,347	10	1,572	775
	2,347	11	1,729	618
	2,347	12	1,886	460
	2,347	13	2,044	303
C. \$8.50 GRAINCORP SHARE PRICE				
	2,347	8	1,258	1,204
	2,347	9	1,415	1,046
	2,347	10	1,572	889
	2,347	11	1,729	732
	2,347	12	1,886	575
	2,347	13	2,044	418

Source: Grant Samuel analysis

It is not possible to reliably predict where UMG shares will trade or at what rating (i.e. multiple). However, in Grant Samuel's view, a trading multiple range of 10-11 times FY19 pro forma EBITDA (excluding a premium for control) is plausible. Supporting reasons include the following:

- the business has a number of highly attractive attributes including:
 - a leading international market position (the world's fourth largest commercial maltster);
 - a track record of steady earnings growth;
 - diversified sourcing of raw materials;
 - a spread of geographies (North America, United Kingdom, Australia) and customers (large brewers, craft brewers, distillers) that in turn sell into stable markets;
 - revenues underwritten by long term contracts with key customers; and
 - low capital intensity. GrainCorp estimates "stay in business" capital expenditure to be in the order of \$20-25 million per annum, equivalent to approximately 12-15% of pro forma FY19 EBITDA. This factor alone would justify a relatively high EBITDA multiple (relative to peers with higher capital requirements);

⁶¹ Based on 228.9 million shares and pro forma combined core net debt of \$516 million at 30 September 2019.

⁶² Based on pro forma FY19 pro forma EBITDA of \$160.2 million less \$3.0 million in incremental insurance costs (being the mid point of the \$2-4 million range). While this incremental cost is uncertain (see Section 6.6.3), it has been included in this analysis for the purposes of conservatism.

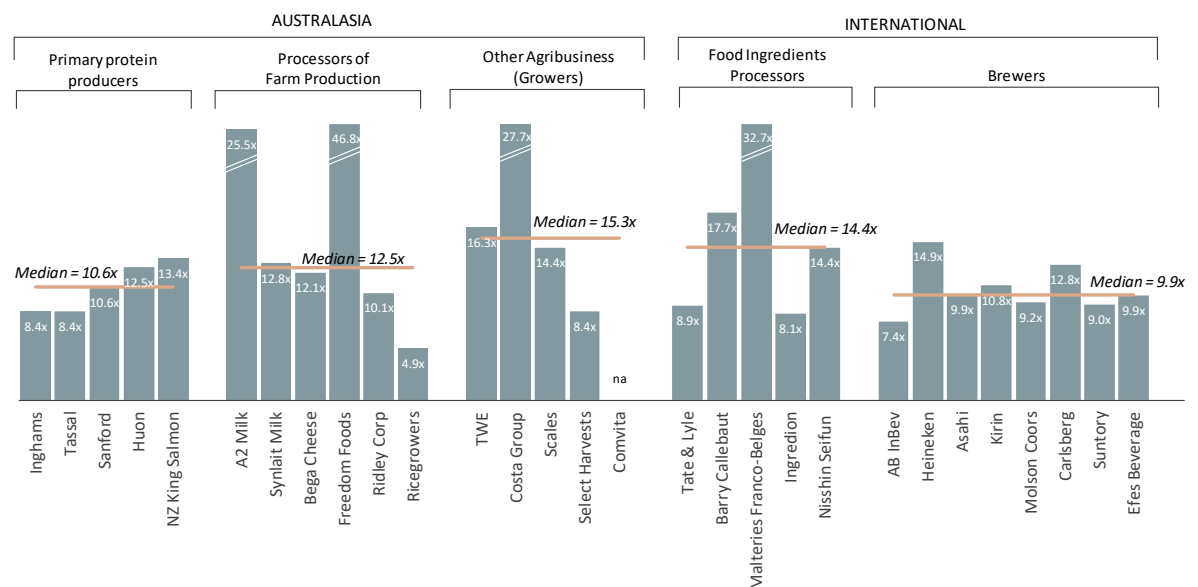
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- the underlying market demand dynamics for malt are positive with growth in both the craft beer sector and the whisky sector expected to continue for some years. UMG is currently significantly expanding its capacity in Scotland (expected to be completed in 2021). When this capacity comes onstream, there should be a further contribution to earnings growth;
- some analysts have made estimates of the market rating for UMG shares. Their estimated EBITDA multiples tend to fall in the range 9-10 times FY21 forecast earnings, which translates into approximately 10-11 times FY19 earnings; and
- UMG will be the only significant malting company listed on any stock exchange globally. Accordingly, there are no direct peers against which to benchmark the company. The following table sets out the market ratings of selected Australian and overseas companies which might be considered broadly comparable insofar as they operate in the food or agribusiness sectors:

UMG - COMPARABLE LISTED COMPANIES

HISTORICAL EBITDA MULTIPLES – SELECTED PEERS



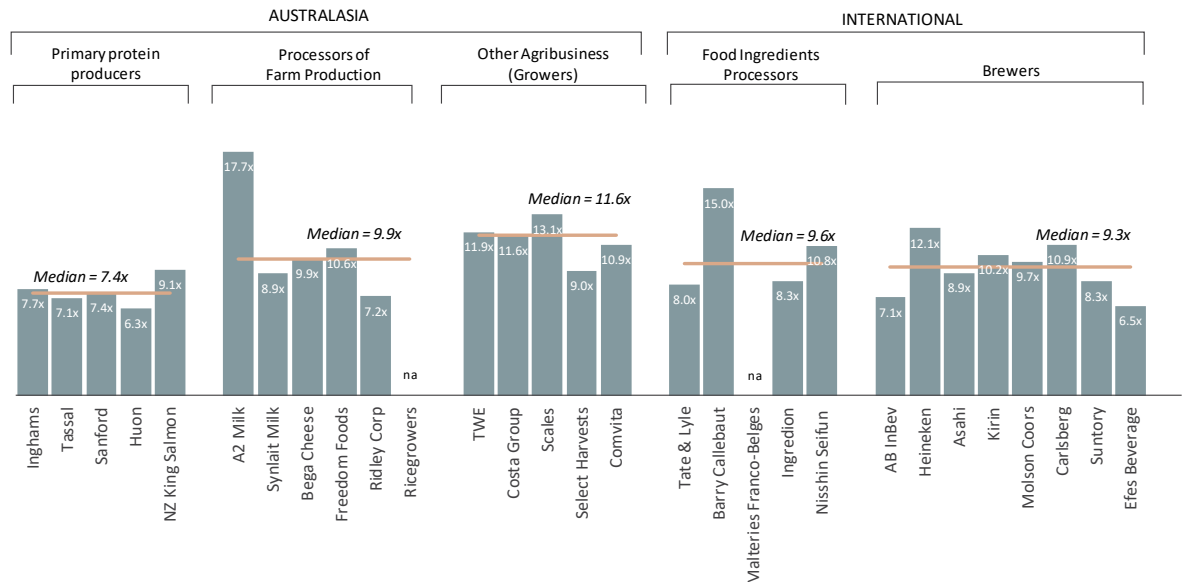
Source: S&P Capital IQ

Note 1 Based on share prices as at 31 December 2019.

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UMG - COMPARABLE LISTED COMPANIES
FORECAST EBITDA MULTIPLES (YEAR +2) – SELECTED PEERS



Source: S&P Capital IQ

Note 1 Forecast EBITDA multiples are based on Year 2 forecasts, which reflect consensus FY21 EBITDA estimates.

Note 2 Based on share prices as at 31 December 2019.

It would be dangerous to read too much into the data given the very significant differences between UMG and the peer group and within the peer group in terms of:

- business operations – size, product, customers, demand profile, distribution channels, brand power, manufacturing/processing footprint, geographic spread;
- track record and short to medium term earnings outlook; and
- capital intensity.

UMG is a processor of agricultural products not a producer or grower. This distinguishes it from many of the listed Australasian companies such as the protein producers (fish, chicken) and companies such as Costa Group, Scales, Select Harvest and Treasury Wine Estates (“TWE”) which grow much of their own raw material. It is more similar to the dairy processors and companies such as Ricegrowers and Ridley in Australia and Tate & Lyle in the United Kingdom which will process materials produced by third party farmers. On the other hand, UMG is essentially an intermediate ingredients business selling to customers who, in turn, produce products for the retail market (brewers, distillers). While branding is an important part of UMG’s business (particularly in the craft beer distribution business) it is not an owner or operator of “retail” brands as such and therefore has a very different business model to dairy processors such as A2 Milk and Bega Cheese or others such as Ricegrowers, Costa Group, Freedom Foods and TWE.

In any event, the demand profile of the end markets is arguably a more important driver of value than the specific business model. The outlook for beer and whisky producers is very different to that for milk, nuts, fruit and vegetables, fish or chicken. While the outlook for the whisky and craft beer markets is very positive, it may not offer the same upside as, say, selling milk products to an emerging China market.

The market evidence displays little apparent pattern. Nevertheless, it is broadly supportive of historical EBITDA multiples of over 10 times for businesses with attractive attributes and strong cash flow.

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If UMG does trade at 10-11 times FY19 pro forma EBITDA, the current share price around \$8.00 effectively attributes an enterprise value of \$618-775 million to New GrainCorp.

It is extremely difficult to estimate a likely market price for New GrainCorp given the present drought conditions, the losses incurred in FY19 and the high level of uncertainty attached to any forecast of future earnings. However, it does seem that \$618-775 million is on the low side:

- New GrainCorp's adjusted pro forma ungeared NTA at 30 September 2019 was \$899 million⁶³. This value reflects written down book values. There has been some broker analysis of replacement values based on cost per tonne of storage for port assets and upcountry storage assets derived from recent transactions or investment data (discounted to reflect age and inefficiency factors). One of the broker's "base case" analysis suggested replacement values very substantially above current book values. Even the downside case (reflecting a 50% discount) supports current book values at a minimum. At the same time, caution is warranted in relying on asset values. Ultimately, market value is driven by the level of earnings/cash flow generated; and
- determining a future earnings profile for New GrainCorp is not possible with any meaningful degree of reliability:
 - the business recorded a loss at EBITDA level for FY19 and earnings over the last five years have been highly volatile;
 - future earnings will be determined primarily by the size of the future East Coast Australia grain harvests. Predicting future weather/climatic conditions for this part of Australia is fraught with uncertainty; and
 - accordingly, the focus is generally on "through the cycle" earnings but even this is difficult in view of the substantial changes to the business over the past couple of years (cost savings, global sourcing, other initiatives). The recent drought and weak harvests mean the effectiveness of these changes (and the level of cost savings or incremental profits actually realised) has not yet been validated in a "normal" year.

Nevertheless, GrainCorp has previously provided some guidance as to what it believes the earnings potential of the business could be (in a normal year)^{64,65}:

GRAINCORP GRAINS & OILS – EARNINGS POTENTIAL

	\$ MILLIONS
Average Grains EBITDA FY14-18	86
Initiatives	55 – 80
Indicative Grains EBITDA potential	141 - 166

To derive an illustrative earnings potential for New GrainCorp certain adjustments are required:

⁶³ This reflects net assets of New GrainCorp, adjusted for core debt, intangible assets deferred tax assets. For comparison purposes to the indicative enterprise value of New GrainCorp, the 10% interest in UMG has also been excluded.

⁶⁴ Source: November 2018 presentation to Annual General Meeting.

⁶⁵ This analysis was prepared prior to the Crop Production Contract being put in place. However, a "normal" year will not generate any payments or receipts under the contract. The annual costs associated with the contract are included in the second table.

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NEW GRAINCORP – ILLUSTRATIVE EARNINGS POTENTIAL

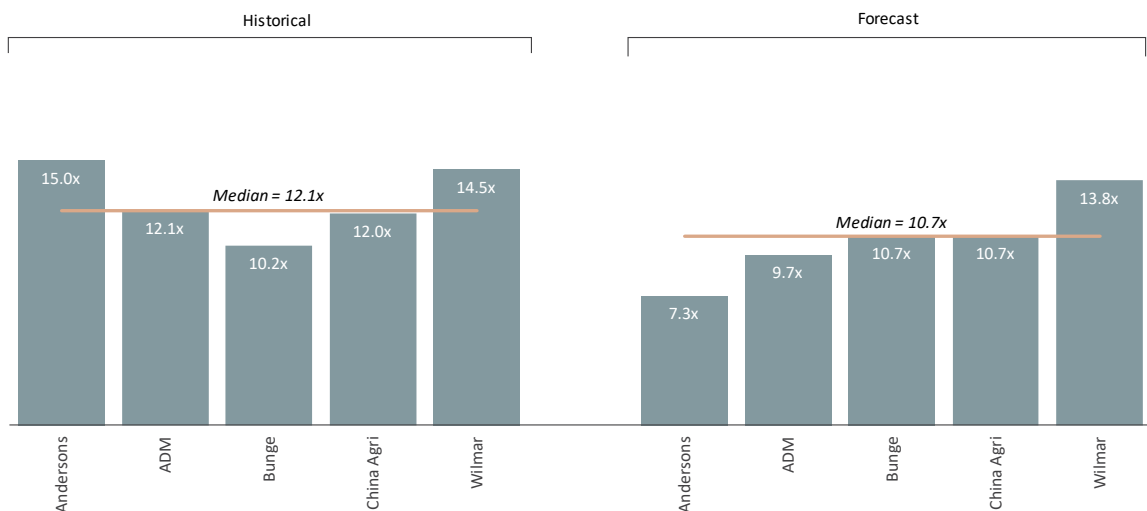
	\$ MILLIONS
Grains EBITDA potential	141 – 166
Oils EBITDA ^{66,67}	25
Head offices costs ⁶⁸	(30)
Oils/Grains integration and head office simplification benefits ⁶⁹	20
Other costs ⁷⁰	(15) – (13)
Trading Interest ⁷¹	(12)
Adjusted New GrainCorp Earnings Potential^{72,73}	129 – 156

On this basis, the implied enterprise value of New GrainCorp (assuming a GrainCorp share price of \$8.00) of \$618-775 million represents EBTDA⁷⁴ multiples of 4.0-6.0 times (mid point 5.0 times). Even if earnings are substantially discounted to, say, \$100-120 million, the implied multiples are 5.2-7.7 times (mid point 6.4 times).

These multiples are low compared to the trading multiples of EBITDA for other listed grain and edible oil processors as set out below:

NEW GRAINCORP - COMPARABLE LISTED COMPANIES

HISTORICAL AND FORECAST EBITDA MULTIPLES – SELECTED GRAINS/OILS PEERS



Source: S&P Capital IQ

Note 1 Forecast EBITDA multiples are based on Year 2 forecasts, which reflect consensus FY21 EBITDA estimates.

Note 2 Based on share prices at 31 December 2019.

⁶⁶ FY19 underlying EBITDA of \$52.7 million less FY19 contribution from Australian Bulk Liquid Terminals of \$28.1 million. These earnings do not include the full effect of incremental benefits from initiatives such as Numurkah crush expansion and margin improvement (see Section 3.2).

⁶⁷ Includes lease costs for new leasing arrangements with ANZ Terminals.

⁶⁸ Based on average of FY18 and FY19 actuals.

⁶⁹ The Grains/Oils integration was not an initiative included in the November 2018 AGM presentation. These cost savings are set out in Section 3.13(g) of the Demerger Scheme Booklet.

⁷⁰ Includes Crop Production Contract annual costs (premium, etc.), incremental standalone costs of \$1.6 million and, for the purposes of conservatism, an allowance for potential higher insurance costs of \$2 – 4 million (see Section 6.6.3).

⁷¹ As only core debt is included in Enterprise Value calculations, interest expense on commodity trading inventories needs to be allowed for (assumed to be \$12 million out of \$14.5 million total FY19 pro forma finance costs).

⁷² The earning potential analysis does not represent Grant Samuel's or GrainCorp's forecasts of the future financial performance of New GrainCorp. The analysis has been developed purely to allow Grant Samuel to test value propositions relating to New GrainCorp and is for illustrative purposes only. Actual results may be significantly more or less favourable. Grant Samuel gives no undertaking and makes no warranty regarding the future financial performance of the business. Such future performance is subject to fundamental uncertainty.

⁷³ Before adjusting for lease accounting under AASB 16.

⁷⁴ EBTDA is earnings before tax, depreciation and amortisation but after interest on commodity trading inventories.

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It is arguable that New GrainCorp should trade at a discount to these peers given:

- its smaller size and lack of diversification;
- its dependence on the volatile East Coast Australia grain harvest;
- recent trading performance (e.g. FY19) and short term outlook for FY20;
- the extent of yet to be validated profit improvement assumed to be generated from recent initiatives; and
- the prevailing drought conditions, with a “normal” harvest not expected before 2021/22.

However, the differential does appear excessive. On this basis, there is a reasonable argument that the combined value of UMG and New GrainCorp shares could exceed the current GrainCorp share price levels of around \$8.00.

At the same time, there is no certainty of an immediate value uplift:

- the market is well informed about the Proposed Demerger and the share price should already reflect the fact of the demerger and the net benefits;
- trading prices for New GrainCorp shares may be adversely affected in the short term by:
 - register realignment post demerger (see Section 6.6.4); and
 - the anticipated poor harvest in 2019/20 (albeit an improvement over 2018/19). Sentiment towards New GrainCorp shares may not improve until there are some signs of drought recovery (i.e. rain); and
- trading prices may also be adversely impacted if New GrainCorp falls out of the S&P/ASX 200 index.

Even if there is no immediate value uplift, the benefits outlined in Section 6.4 should result in value enhancement (relative to the status quo) over time.

6.6 Disadvantages, Risks and Costs

6.6.1 Reduced Size and Diversity

Both of the demerged entities will be substantially smaller and less diversified than GrainCorp. Their spread of commodity exposures will be more concentrated. Historically, GrainCorp Malt's performance has had little or no correlation with GrainCorp Grains & Oils. Definitionally, this means that each entity will be individually less able to readily absorb the financial and business consequences of significant adverse events as the events will have a greater relative impact.

However, there are mitigants in relation to UMG:

- the financial leverage is manageable and, on some metrics, conservative in view of UMG's stable cash flow generation:
 - net debt to EBITDA⁷⁵ (pro forma FY19) of 2.7 times;
 - EBITDA to net finance costs⁷⁶ (pro forma FY19) of 14.1 times; and
 - EBIT to net finance costs⁷⁶ (pro forma FY19) of 9.5 times.

UMG has a policy of targeting a strong investment grade capital structure and maintaining a net debt to EBITDA ratio in the range of 2.0-2.5 times; and

⁷⁵ Excluding capitalised lease liabilities under AASB 16 (estimated to be \$79 million as at 30 September 2019).

⁷⁶ Excluding interest attributed to leases arising from anticipated application of AASB 16.

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- the business enjoys:
 - a revenue base underpinned by consistent demand from customers (large brewers and whisky producers) that, in turn, have stable levels of customer demand and relatively entrenched market positions. The craft brewing sector is more dynamic but UMG has a diversified exposure to, and significant share of, this sector;
 - a track record of stable but growing earnings; and
 - low capital intensity (stay in business capital expenditure is around 12-15% of EBITDA).

The concerns are arguably more acute in relation to New GrainCorp. However, even in this case:

- financial leverage is relatively modest. While total pro forma debt as at 30 September 2019 is \$416 million, most of this is funding of trading inventories which are liquidated over the season, resulting in pro forma core net debt of only \$82 million. At the same time, New GrainCorp will hold a liquid 10% interest in UMG which should have a value of >\$100 million and has other potential cash inflows (e.g. deferred receipts of \$19 million from the sale of Australian Bulk Liquid Terminals (contingent on the satisfaction of certain milestones relating to the extension and commencement of leases agreements on certain terminal sites in future periods) and sale of non-core assets); and
- while New GrainCorp is highly exposed to the Australian climatic conditions and their impact on the annual East Coast Australia grain crop and therefore volumes flowing through the GrainCorp network, the business has taken significant steps to mitigate the impacts, for example:
 - developing offshore sourcing capabilities;
 - variablising more of the cost base; and
 - putting the Crop Production Contract in place which provides a very significant degree of protection to business in the event of poor harvests (by historical standards).

The Crop Production Contract is arguably a critical factor in ensuring the stand alone viability of New GrainCorp from a financial point of view as it should (when combined with other business improvements) substantially lower the likelihood of New GrainCorp generating material losses at the EBITDA level at least for the duration of the contract. On the other hand, New GrainCorp is more highly exposed to counterparty risk inherent in the Crop Production Contract.

To the extent that the existing diversity of crop and end market exposures is attractive to shareholders, this can be replicated in their portfolios by continuing to hold shares in both UMG and New GrainCorp.

The smaller size of both entities (relative to GrainCorp) may also mean that over time the commercial terms agreed with suppliers and customers are less advantageous than they would have been as part of a larger combined group. However, given the nature of the group's operations such an impact is likely to be minimal. The two businesses operate quite independently and there is little or no overlap in suppliers or customers. The primary operating costs are payments to farmers, transport and energy in each jurisdiction. It is unlikely that any of these are materially impacted by the scale of GrainCorp (scale in any specific jurisdiction does not change materially).

6.6.2 Impact on Funding Costs

GrainCorp's corporate debt facilities have been restructured to create separate facilities for UMG and New GrainCorp. In theory, as both entities are smaller and less diversified than GrainCorp, the interest margins on facilities for the two entities will be higher than those incurred under the status quo (other things being equal). However, the impact is difficult to quantify as facilities in place were established in different market conditions and involved different debt facility structures (e.g. maturity profiles). In this context, GrainCorp has advised that the margins on the new facilities are not materially different to margins on its current facilities (some are 5-10 basis points higher while some are lower). While in the long term, there is likely to

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be some incremental cost relative to funding the status quo structure, the impact on the net earnings of either UMG or New GrainCorp is unlikely to be material.

6.6.3 Additional Corporate and Operating Costs

The Proposed Demerger will result in the loss of the financial benefits of operating the two businesses under a single corporate structure. These benefits are largely derived from operating a corporate head office and the central provision of a number of administrative functions.

Although the businesses already operate independently in most respects, they currently share corporate overheads in addition to costs related to being a listed company. While certain services (primarily information technology, human resources and financial functions) will be covered by transitional services arrangements for a period, ultimately each of the demerged companies will have to support these overheads from its own resources.

Following the Proposed Demerger, UMG will incur additional corporate and operational costs including:

- costs associated with listing UMG on the ASX such as listing fees, share registry, annual reports, shareholder communications, legal and regulatory compliance, board of directors and secretarial;
- new CEO; and
- central administrative costs such as finance, treasury, tax, legal and insurance.

These incremental costs are estimated to be approximately \$14.9 million per annum. In addition, New GrainCorp expects to incur incremental insurance expenses and compliance costs of \$1.6 million per annum.

In addition, GrainCorp has been advised that both New GrainCorp and UMG could each incur additional insurance premium costs of \$2 million to \$4 million for renewal of insurance policies if they are renewed on current settings (e.g. limits, deductibles, exclusions, etc.)⁷⁷. The new insurance policies are yet to be finalised and GrainCorp is reviewing the suitability of current settings in the context of the Proposed Demerger and relative to peers. Accordingly, the extent of any increase is uncertain. In any event, a significant element of any cost increase would be incurred irrespective of the Proposed Demerger (as it reflects changes in insurance market conditions).

At the same time, GrainCorp/New GrainCorp estimates that it will be able to reduce its own cost base by \$20 million per annum. These savings primarily come from:

- the integration of Grains and Oils business units (eliminating duplication of costs and corporate functions); and
- restructuring and simplification of the existing GrainCorp head office as a result of no longer having to oversee, report on and provide services to the UMG business. Some functions can be scaled down or even eliminated and, in some cases, remuneration levels adjusted to reflect the reduced scope and responsibility of the role.

While these are two separate initiatives, at a practical level, there is considerable overlap in the implementation (as the distinction between head office and divisional functions will be realigned for New GrainCorp).

It can be argued that most of these savings (even the head office simplification) should have been able to be achieved within the current structure if the businesses were run on a truly autonomous basis. On the other hand, the reality is that it takes a catalyst such as a demerger to give the necessary impetus and urgency to achieve such savings.

⁷⁷ In addition to amounts allowed for in New GrainCorp incremental annual cost estimates of \$1.6 million.

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6.6.4 Sharemarket Issues

The S&P/ASX 200 is widely regarded as the key index for broadly based institutional investment. As a primary benchmark, index funds and those funds that closely follow the index will be highly likely to have some level of investment or will at least have evaluated such an investment in any entity in the index. Entities below the S&P/ASX 200 tend to receive much less institutional interest.

With a market capitalisation of approximately \$1.9 billion, GrainCorp is presently ranked 151st in the S&P/ASX 200 index (with 100% weighting) and liquidity (as measured by turnover) is reasonably good with annual turnover of well over 100% of average issued capital⁷⁸ (notwithstanding the Ellerston and Perpetual holdings). Activity may have been helped by interest around the LTAP proposal but has remained reasonable since.

GrainCorp expects that both entities, while smaller than GrainCorp, will be included in the S&P/ASX 200 from the date of implementation, although this cannot be guaranteed and will always be subject to change.

However, each of UMG and New GrainCorp can be expected to occupy lower positions in the S&P/ASX 200 and there is therefore a greater risk of either entity falling out of the index (compared to the status quo) with the attendant adverse consequences in terms of liquidity and market rating (i.e. share price). Institutional shareholders with mandates restricted to the S&P/ASX 200 will have to sell and those that benchmark their performance to it will inevitably follow suit.

It is not possible to determine exactly the prices at which each company will trade (and therefore what market capitalisations they will have). However, it seems likely that UMG will have a market capitalisation of >\$1 billion and, as the cut off point for exclusion is currently around \$700 million (of eligible market capitalisation), the risk, at least in the short to medium term, is relatively low (even allowing for the exclusion of New GrainCorp's 10% shareholding).

There is a greater risk of New GrainCorp falling out of the index given the cut off point of circa \$700 million. This risk is exacerbated by the current absence of dividends and the anticipated weak harvest for 2019/20. Grant Samuel understands there can be some flexibility in the short term (e.g. there are companies in the index even though they are currently well under the cut off point) but they will usually be removed at the next reset date.

In the medium to longer term, the outcome will depend on future performance of the businesses (relative to other listed companies), any corporate transactions (e.g. a scrip merger that increases the size of the business), as well as the extent of index membership changes through takeovers (or other delistings) and larger IPOs (or other new listings).

In any event, the reduced size of both entities (relative to GrainCorp) is likely to have some adverse impact on trading activity and liquidity more generally. This situation is accentuated by the Perpetual and Ellerston holdings which reduce the size of the "active" register.

Demergers typically lead to some degree of register alignment in the months following implementation as investors manage their desired level of exposure to each business. In some demergers, there may also be some forced selling as a result of mandate restrictions (e.g. if one entity is no longer Australian incorporated). This can lead to a period of share price underperformance until the adjustments are completed and demand/supply dynamics become more settled.

In GrainCorp's case, the realignment activity is expected to be relatively moderate:

- both entities will be Australian incorporated and ASX listed and should remain in the S&P/ASX 200 index (at least initially). There should therefore be no mandate or similar issues;

⁷⁸ Over the past three years, annual liquidity in GrainCorp shares have averaged 126% of issued capital

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- the reduction in weighting has no direct impact on index funds as, other things being equal, the aggregate weighting remains the same as it is just split between the two entities; and
- both businesses are in the broad agribusiness sector. Existing investors were, by definition, happy to be exposed to both as each represents a significant proportion of GrainCorp and were therefore a fundamental feature of any investment. There is no obvious reason for there to be a high level of selling of either entity by existing investors although it could be argued that there is more likely to be some pressure on New GrainCorp given its more challenging outlook in the current climatic conditions.

On the other hand, there are reasons to expect that there will be some level of “new” demand for UMG shares, particularly agribusiness investors and food/drink investors who want to participate in the beer/whisky supply chain but were deterred from investing in GrainCorp because of its significant exposure to other, riskier, businesses. UMG will be the only listed pure malt business (of any significance) with a number of attractive features including:

- being the fourth largest independent maltster globally;
- a geographically diverse business that supplies both beer and whisky producers; and
- a market leading position in the fast growing craft beer market in the United States.

It is arguable that, as over 50% of the business (by volume and revenue) is in North America (and Australia represents only 20% of UMG’s production), a United States listing may be more appropriate. While this is a consideration:

- GrainCorp’s share register comprises predominantly Australian based institutional and retail investors. Listing UMG on another exchange (e.g. NASDAQ or NYSE) could disadvantage Australian shareholders wanting to sell. It would require considerable time and effort to develop a healthy domestic investor market on those exchanges. In any event, UMG is arguably too small to garner significant interest in those markets;
- there are existing Australian companies with primary listings on the ASX that have predominantly offshore businesses; and
- it is open to UMG to redomicile to a more geographically appropriate stock exchange in due course if and when that makes commercial sense.

6.6.5 Lack of Track Record

UMG will be a new standalone ASX listed company with a new board of directors including two recently appointed non-executive directors. The relationships between the new board and UMG management and the relationships within the board itself are untested and, inevitably, there is a risk that it does not work as planned. In addition, certain of the senior management of UMG (including the CFO) do not have previous experience in their roles in a public listed company. However:

- the board will have continuity and experience with the business through the appointment of:
 - Graham Bradley, the current Chairman of GrainCorp, as the initial Chairman of UMG; and
 - Mark Palmquist as CEO and an executive director. He has been CEO of GrainCorp since 1 October 2014 and therefore has:
 - an in-depth knowledge of the UMG business; and
 - an existing working relationship with the Chairman; and
 - two GrainCorp non-executive directors with over eight years of experience on the GrainCorp board;

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- most other key members of the UMG senior operational management team have been with GrainCorp Malt for more than five years.

While GrainCorp will continue as a standalone ASX listed company (as New GrainCorp) it will have a different board of directors including one recently appointed non-executive director and a new CEO, Robert Spurway, who has joined from outside the company. The relationship between the board and New GrainCorp management and the relationships within the board itself are therefore untested. However:

- the board will have continuity and experience with the business through the appointment of Peter Richards, the current Deputy Chairman of GrainCorp, as Chairman of New GrainCorp. In addition, two existing non-executive directors of GrainCorp, each of more than ten years' standing, will remain in place;
- Alistair Bell, the current CFO of GrainCorp, will continue in that role for New GrainCorp; and
- most other key members of the New GrainCorp senior operational management team have been with GrainCorp Grains & Oils for some time.

The Proposed Demerger has implications for the management of both New GrainCorp and UMG and any organisational change involves some degree of risk. However, change is a regular part of corporate life and any negative impact is unlikely to be material.

6.6.6 Transition and Implementation Risks

Any separation of two organisations is a complicated exercise at an operational level. There are inevitably risks relating to the implementation of the Proposed Demerger, including:

- delays and increased costs in achieving legal and practical separation of the businesses, including a full support service capability for UMG;
- failure to obtain any third party consents required as a result of triggering change of control clauses in supplier or service contracts or property leases;
- disruption and management distraction during the implementation period; and
- retention of key management personnel.

Grant Samuel does not regard these risks as being outside the normal risks of any corporate restructuring transaction. In any event:

- UMG is already established as a separate, autonomous business with its own management team and premises. The operational separation largely relates to corporate office functions and IT services. There is a dedicated transaction team to isolate these activities from the operation of the core business;
- GrainCorp and UMG have assessed the need to obtain consents from key suppliers and lessors and have begun the process of contacting the relevant counterparties; and
- there is a detailed Transitional Services Agreement which provides for the sharing of support services for a period post the Proposed Demerger. This should facilitate the smooth establishment of standalone support services capacity at UMG over time.

6.6.7 One-Off Transaction and Implementation Costs

GrainCorp estimates that costs of implementing the Proposed Demerger will total \$49 million on a before tax basis (of which \$20 million was expensed in FY19). These costs, which will largely be incurred by GrainCorp, include advisers' fees, restructure costs (including stamp duty and other taxes), fees associated with the ASX listing of UMG and other one-off implementation costs such as redundancies, IT and debt restructuring costs. Approximately \$35 million of the total cost will have been incurred prior to the

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GrainCorp shareholders' meeting to approve the Proposed Demerger. Therefore, additional costs to be incurred if the Proposed Demerger proceeds are approximately \$14 million.

The total one-off transaction costs of the Proposed Demerger, which are before tax and include costs that will generate cost savings, are not significant, representing less than 3% of GrainCorp's current market capitalisation.

There is a risk that total transaction and implementation costs could exceed the estimate of \$49 million (before tax). However, any excess is unlikely to be material in the context of GrainCorp as a whole.

6.6.8 Ineligible Overseas Shareholders

Ineligible overseas shareholders will not be entitled to receive UMG shares under the Proposed Demerger. The UMG shares that would otherwise have been distributed to them will be transferred to a sale agent and sold on the ASX on their behalf and they will receive the net proceeds (free of any brokerage costs). Ineligible overseas shareholders may also be required to pay tax on any profit on that disposal (in their country of residence). However:

- the UMG shares will be sold for market value;
- they can acquire UMG shares through the ASX following listing if they wish to retain (or increase) their exposure to the UMG business; and
- shareholders representing less than 0.1% of GrainCorp's issued capital are expected to be impacted by these provisions.

6.6.9 Additional Risks

Section 4 of the Demerger Scheme Booklet details a number of other risks relating to the Proposed Demerger and investment in UMG and New GrainCorp. Shareholders should consider these factors in making a decision on whether to vote for the Proposed Demerger.

6.7 Taxation Issues

6.7.1 Corporate Taxation

The Proposed Demerger is not expected to result in any capital gains tax ("CGT") or income tax liability for GrainCorp⁷⁹.

The CGT consequences of the Proposed Demerger are set out in Division 125 of the Income Tax Assessment Act 1997 (Cth) ("the demerger provisions"). GrainCorp is seeking a private binding ruling from the Australian Taxation Office ("ATO") confirming that demerger tax relief is available to it under the demerger provisions (i.e. the transfer of UMG shares to GrainCorp shareholders will have no CGT implications for GrainCorp).

GrainCorp has carried forward income tax losses of \$345 million (of which \$272 million are in Australia) and Australian carried forward capital losses of \$8 million. The Australian income tax losses are expected to be preserved within New GrainCorp. There will be some loss of carry forward tax losses in foreign jurisdictions, primarily Germany and New Zealand (totalling \$73 million). Deferred tax assets of \$7.5 million relating to these losses will be written off but there is no cash cost. UMG will have no carried forward income tax losses or carried forward capital losses at the time of exit from the GrainCorp tax consolidated group.

⁷⁹ To the extent the internal restructuring prior to the Proposed Demerger results in stamp duty (or similar) liabilities, these amounts have been allowed for in the estimate of one-off transaction costs.

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Following implementation of the Proposed Demerger, GrainCorp will remain the head company of the New GrainCorp Australian tax consolidated group and UMG will exit GrainCorp's Australian tax consolidated group. UMG will also form a new Australian tax consolidated group.

The effective tax rates of New GrainCorp and UMG as standalone companies are expected to be different from the overall rates that would have applied to GrainCorp in the absence of the Proposed Demerger. The difference reflects the tax rates that apply in the different jurisdictions in which each company operates (e.g. New GrainCorp will primarily operate in Australia (30% corporate tax rate) while UMG's rate reflects the combination of the rates applicable across the three countries in which it operates (United States, United Kingdom and Australia).

6.7.2 Tax Consequences for Australian Resident Shareholders

The Proposed Demerger is not expected to give rise to any adverse tax consequences for shareholders who are residents of Australia for income tax purposes and hold GrainCorp shares on capital account.

GrainCorp has applied to the ATO for a class ruling to confirm the Australian income tax consequences of the Proposed Demerger for Australian resident shareholders. GrainCorp has received a draft of the class ruling which sets out the ATO's preliminary views. In summary, it is expected that:

- Australian resident shareholders who hold GrainCorp shares on capital account should generally be eligible for demerger tax relief to defer any capital gain that arises in relation to the capital reduction; and
- the demerger dividend (i.e. the difference between the fair value of UMG shares and the amount of the capital reduction) will not be assessable to Australian resident shareholders.

For Australian resident shareholders who hold their shares on capital account and elect to obtain demerger tax relief, the tax consequences of the Proposed Demerger are expected to be as follows:

- any capital gain that arises in relation to the capital reduction will be disregarded; and
- the existing cost base of their GrainCorp shares will be apportioned between the New GrainCorp shares and UMG shares on the basis of market values immediately following implementation of the Proposed Demerger.

For Australian resident shareholders who hold their shares on capital account and do not elect to obtain demerger tax relief, the CGT consequences are expected to be similar to shareholders who elect to obtain demerger tax relief except that the cost base of the GrainCorp shares must be reduced by the amount of the capital reduction and, to the extent that the capital reduction amount exceeds the cost base, will realise a capital gain. Any capital gain may be eligible for the CGT discount concession.

6.7.3 Disclaimer

The analysis set out above outlines that major tax consequences for Australian resident shareholders of the Proposed Demerger and should be viewed as indicative only. It does not purport to represent formal advice regarding the taxation consequences of the Proposed Demerger for shareholders. Further details of the taxation consequences of the Proposed Demerger are set out in Section 6 of the Scheme Booklet. In any event, the tax consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

The non-Australian taxation implications for non-Australian resident GrainCorp shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation consequences of the Proposed Demerger.

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6.8 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposed Demerger is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Demerger, the responsibility for which lies with the directors of GrainCorp.

In any event, voting for or against the Proposed Demerger is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposed Demerger, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in GrainCorp, New GrainCorp or UMG. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Proposed Demerger. Shareholders should consult their own professional adviser in this regard.

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7 Impact on GrainCorp's Ability to Pay its Creditors

7.1 Approach

If the Proposed Demerger is approved, GrainCorp will undertake a capital return and declare a demerger dividend (which together comprise the demerger distribution). The demerger distribution will result in a reduction in GrainCorp's shareholders' funds. However, it will not be distributed in cash but instead will be used on behalf of shareholders as payment for UMG shares.

Grant Samuel has been requested to express an opinion as to whether the capital reduction (arising from the capital return) materially prejudices GrainCorp's ability to pay its existing creditors. As:

- the capital reduction and demerger dividend will occur concurrently;
- the amount of the demerger distribution will be equal to the VWAP of UMG shares for its first five trading days; and
- the allocation between capital return and demerger dividend will be determined by the relative market values of New GrainCorp and UMG,

the quantum of the capital reduction is unknown at this point. It is therefore difficult to assess whether the capital reduction by itself will materially prejudice GrainCorp's ability to pay its existing creditors. However, the nature of a demerger means that the analysis does not rest on the actual quantum as the underlying financial effects are the same regardless of the actual amount of the capital return or the demerger dividend.

Strictly, the question applies only to the head company (i.e. GrainCorp Limited) but, as it is party to a deed of cross guarantee (see below), the issue needs to be addressed in terms of the whole group. While the position of, and the effect on, each creditor of the group will depend on the nature of their exposure, the particular entity with which they have contracted, the nature of any security they hold (e.g. lessors) and the term of their credit, the question of a company's ability to pay creditors is, in Grant Samuel's view, best dealt with in terms of the aggregate corporate group's ability to pay (rather than individual subsidiaries or groups of subsidiaries).

7.2 Background

Creditors of GrainCorp are subject to two key sets of arrangements

- **Deed of Cross Guarantee**

GrainCorp Limited and certain of its controlled entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others (the "Closed Group").

The Closed Group comprises most (but not all) of the Australian subsidiaries of GrainCorp and includes most of the GrainCorp Grains & Oils businesses as well as the Australian entities of GrainCorp Malt.

The subsidiaries outside the Closed Group mostly comprise the offshore GrainCorp Malt entities in the United States and United Kingdom as well as some grains related entities; and

- **Common Terms Deed**

GrainCorp's borrowing arrangements operate under a negative pledge and allow flexibility in liquidity management under which liquidity requirements of any entity in the negative pledge group can be met by any other entity in the group.

The net effect of these arrangements is that:

- creditors of entities in the Closed Group have access (e.g. in a winding up) to:

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- all the assets of the Closed Group; and
- the net assets of the entities outside the Closed Group;
- creditors of entities outside the Closed Group have access (e.g. in a winding up) only to the assets of the individual entities with whom they have contracted;
- the creditors outside the Closed Group effectively have a priority access (relative to creditors of the Closed Group) to the assets in their respective entities but from a Closed Group creditor's perspective the offset is that they have no rights to access the assets of the Closed Group entities; and
- creditors of all entities in the GrainCorp group have access to the group's liquidity (i.e. cash or undrawn borrowing capacity). This arrangement means that individual companies outside the Closed Group could be subject to substantial movements in cash, debt and intercompany balances.

Accordingly, any individual creditor's exposure involves a complex interplay of liquidity and asset backing. In summary, they are dependent on the financial health of both:

- the Closed Group or the individual entity (if outside the Closed Group) depending on their counterparty; and
- GrainCorp as a whole.

7.3 Impact of the Proposed Demerger

The Proposed Demerger will result in two new independent corporate groups, UMG and New GrainCorp. Creditors including bank lenders will shift their exposure to one or the other.

The current deed of cross guarantee will continue on foot for New GrainCorp. However, the Closed Group will be adjusted to reflect the excision of the Australian Malt businesses. It will include virtually all of New GrainCorp's businesses.

UMG will create a new deed of cross guarantee that will cover UMG itself (i.e. the parent company) and the Australian Malt businesses. Most of the group will remain outside the deed of guarantee.

As part of the Demerger, a Revocation Deed will be lodged with ASIC on or after the Effective Date to revoke the guarantee in respect of UMG subsidiaries (i.e. the deed of guarantee will continue in effect for New GrainCorp). The revocation will take effect six months after the date of lodgement.

Both UMG and New GrainCorp have put in place a Common Terms Deed under their respective banking arrangements which allow for the same kind of liquidity flexibility as the existing GrainCorp arrangement.

7.4 Evaluation

The issue relating to a capital reduction materially prejudicing the ability to pay creditors arises because:

- existing creditors will have formed their own views about whether or not to extend credit to GrainCorp, at least in part, on the basis of GrainCorp's existing financial parameters including operating cash flows (e.g. quantum and volatility) and capital structure (e.g. the amount of shareholders' equity and the degree of financial leverage); and
- a capital return (which is traditionally a cash return to shareholders) changes the risk profile for a creditor by changing the financial position of the entity or group. Specifically, it:
 - reduces shareholders' funds (i.e. equity capital);
 - reduces cash resources and/or increases debt; and
 - reduces net operating cash flows (reduced interest income and/or increased interest expense).

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Accordingly, there is a concern as to whether creditors interests have been materially adversely impacted by the capital reduction. However, the question in relation to a capital reduction in relation to a demerger is different:

- there is no cash return to shareholders (i.e. no cash is removed from the group). The financial structure of the business is, in total, unchanged. The equity capital base is not reduced, it is simply being split between two new corporate groups. Similarly, debt is split between the two groups; and
- some GrainCorp group creditors will remain creditors of GrainCorp (and its subsidiaries), operating as New GrainCorp (without the Malt business). Others will become creditors of UMG (and its subsidiaries). It is therefore not just a question of the impact on the continuing entity (New GrainCorp) but also the position of creditors of the demerged entity (UMG).

In Grant Samuel's view, the critical issue is how the existing financial indebtedness of the group has been allocated between the two new groups and whether or not:

- the allocation fairly balances and reflects differences between the two groups in terms of their overall creditworthiness and, in particular, factors such as:
 - cash flow generating capacity (e.g. EBITDA, working capital and capital expenditure requirements); and
 - cash flow stability (e.g. throughput volatility, customer demand variability, competitive and market dynamics, seasonality); and
- the allocation endangers the financial sustainability of either group.

In the case of the Proposed Demerger:

- aggregate operating cash flows across the two businesses is not materially changed by the Proposed Demerger. There are incremental operating costs of \$16.5 million across New GrainCorp and UMG, but these are relatively minor and there are offsetting cost savings anticipated;
- the vast majority of core debt has been allocated to UMG (\$434 million pro forma net debt as at 30 September 2019). This decision reflects UMG's relative size (in EBITDA terms), strong cash flow generation (low capital intensity) and earnings/cash flow stability (as evidenced over the last five years).

UMG operates in mature industries where it has significant market shares. Arguably, the most important driver of earnings and cash flow is the continued strength of the craft brewing sector, particularly in the United States. UMG has long established, international operations, a strong distribution platform and can leverage the market positioning of its processing assets, which are strategically located in major barley regions.

Net operating cash flow over the last three years has been impacted by an extensive capital investment program to upgrade equipment, increase capacity and improve operating efficiency for its malt processing assets such as Pocatello. UMG does have further growth capital expenditure requirements over the next two years of \$90-110 million (for the Scottish expansion). However, this should be able to be comfortably absorbed within operating cash flows. Capital expenditure is expected to be significantly lower post FY21 with stay in business capital expenditure estimated to be in the range \$20-25 million per annum.

In any event, UMG's financial leverage is manageable, if not conservative on some metrics. For example, based on pro forma FY19 results:

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UMG – KEY LEVERAGE METRICS

	PARAMETER
Net debt/EBITDA	2.7x
EBITDA/Net finance costs (excluding leases)	14.1x
EBIT/Net finance costs (excluding leases)	9.5x

The Demerger Scheme Booklet states that UMG intends to maintain a strong investment grade capital structure.

- New GrainCorp is a more challenging business from a credit perspective being highly exposed to climatic conditions across East Coast Australia and global grain market dynamics as well as having recorded an EBITDA loss in FY19. However, from a creditor's perspective:
 - the financial robustness of the business has been strengthened over the last 2-3 years through initiatives such as:
 - cost reductions and business simplification;
 - cost variabilisation (e.g the new rail contract); and
 - execution of the Crop Production Contract.
- As a result, New GrainCorp expects that earnings and cash flows will be more stable and that even in poor harvest years the business should be able to avoid EBITDA losses. If drought conditions ease, there are prospects for the business to generate significant earnings and operating cash flow. The analysis in Section 6.5 indicates potential EBITDA in a “normal” harvest year of >\$100 million; and
- of New GrainCorp's total pro forma debt at 30 September 2016 of \$416 million, \$334 million relates to commodity trading inventory which is liquidated across a season. Core debt is only \$82 million (New GrainCorp also has capitalised lease liabilities of approximately \$210 million). Further, New GrainCorp has:
 - a liquid asset in the form of its 10% interest in UMG (expected market value >\$100 million). Sale of this asset would eliminate core debt; and
 - other potential cash inflows such as the deferred consideration from the sale of Australian Bulk Liquid Terminals (\$19 million, contingent on the satisfaction of certain milestones relating to the extension and commencement of leases agreements on certain terminal sites in future periods) and the sale of non core assets; and
 - both entities have committed medium term debt facilities and significant unutilised capacity within those facilities:

UMG AND NEW GRAINCORP – FACILITY PROFILES

	UMG	NEW GRAINCORP
Term Debt	\$360 million ⁸⁰	\$150 million ^{81, 82}
Working capital facilities	\$160 million	\$390 million
Inventory facilities	\$212 million	\$980 million
Total facilities	\$737 million	\$1,520 million
Pro forma Borrowings (gross) at 30 September 2019	\$486 million	\$455 million

⁸⁰ Maturity in November 2022. Subject to “evergreen” extensions.

⁸¹ Maturity in March 2023. Subject to “evergreen” extensions.

⁸² Reduced from \$400 million following completion of sale of Australian Bulk Liquid Terminals.

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- the providers of the debt facilities to New GrainCorp and UMG have made their own judgements as to the financial risk of each entity in full knowledge of their positions as creditors of the respective post demerger groups and the impact of the Proposed Demerger. The term and working capital debt facilities are all unsecured⁸³ and therefore lenders are in the same position as all trade and other creditors. These funding commitments by third parties suggest that the financial gearing of New GrainCorp and UMG is sustainable and that the companies have the financial capacity to pay their respective creditors; and
- as substantial listed companies, New GrainCorp and UMG would, if necessary, have access to the public equity markets to raise funds to support creditor payments (although there is absolutely no indication that this might be required).

In summary, the financial indebtedness appears to have been fairly allocated so that there is no obvious disadvantage to creditors of either group. There are no “red flags” in terms of the overall financial health of either entity from a creditor’s perspective.

Accordingly, in Grant Samuel’s opinion, the capital reduction does not materially prejudice the ability of GrainCorp to pay its existing creditors.

7.5 Other factors

Other factors relevant to creditors include the following:

- from the perspective of access to assets (e.g. in a winding up) creditors can be segmented into three groups:
 - creditors of the Closed Group who will remain creditors of GrainCorp and therefore become creditors of New GrainCorp;
 - creditors of entities in the Closed Group who will become creditors of UMG and its subsidiaries (primarily creditors of the Australian Malt business); and
 - creditors of entities outside the Closed Group (primarily non-Australian creditors of the Malt business).

Under the Proposed Demerger:

- creditors of the Closed Group who retain exposure to New GrainCorp will only have access to New GrainCorp assets and will lose access to:
 - the assets of the Australian Malt business; and
 - the net assets of the entities outside the Closed Group (essentially the malt business ex Australia).

On the other hand:

- the core debt will be reduced by the \$434 million transferred to UMG leaving only \$82 million with New GrainCorp; and
- Australian Malt business creditors will have been removed from the pool of creditors;
- creditors in the Closed Group who shift their exposure to UMG (largely creditors of the Australian Malt business) will:
 - continue to have access to the assets of the Australian Malt business and the net assets of the offshore Malt businesses (effectively ranking behind creditors of those offshore entities);
 - lose access to the assets of New GrainCorp but will no longer have to share assets with New GrainCorp creditors; and

⁸³ Inventory facilities for commodity trading purposes are secured over related inventories.

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- no longer be exposed to the cash flow volatility of the grains business but will have a higher level of financial leverage (core debt of \$433 million and only the operating cash flow of the Malt business to service it); and
- creditors of entities that are not part of the Closed Group will continue to only have access to the assets of the individual entity with which they contracted. The capital reduction has no direct impact on the capital base, net assets, earnings or other financial attributes of these entities (as it occurs at the GrainCorp Limited level).

At the same time, it is necessary to recognise that from a practical perspective, creditors of any individual entity are primarily dependent on the financial performance and general financial health of the whole group with which they deal (see above);

- most trade creditors are short term in nature (i.e. typically repayable within 60 days at any point in time) and accordingly:
 - their existing debts will be repaid within, say, 2-3 months and they will have the opportunity at the time of implementation to reassess for themselves whether they wish to continue to grant credit to New GrainCorp or UMG; and
 - in relation to any credit exposure to entities within the Closed Group as at the Effective Date (expected to be 23 March 2020) they will be covered by the existing deed of cross guarantee for an additional six months approximately (depending on the date of lodgement). Therefore, they will continue to have access to all of the resources of the current GrainCorp deed of cross guarantee group (i.e. there is no change to their risk profile) until this time. In this context, it is important to note that the capital reduction is non-cash, so there is no net outflow of cash (except for transaction and implementation costs) from the combined New GrainCorp and UMG group as a consequence of the Demerger.

In this respect, the primary trade creditors at risk from the Proposed Demerger are those with exposures that are medium to longer term in nature. While this includes lessors (the two businesses have notional lease liabilities of circa \$300 million), these creditors are protected through ownership of the underlying assets (e.g. properties);

- the directors of GrainCorp have stated that in their opinion, the Proposed Demerger (which includes the capital reduction) will not materially prejudice GrainCorp's ability to pay its creditors.

7.6 Disclaimer

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by GrainCorp at the date of this report or at any subsequent time. Grant Samuel's opinion relates only to the impact of the Proposed Demerger on GrainCorp's ability to pay its existing creditors. Future creditors must rely on their own investigations of the financial positions of UMG and New GrainCorp.

G R A N T S A M U E L



8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally in Australia and New Zealand. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions in Australia. Since inception in 1988, Grant Samuel and its related company in New Zealand have prepared more than 560 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson BCom MCom(Hons) CA SF Fin and Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD. Each has a significant number of years of experience in relevant corporate advisory matters. Shaun Yu BBA CFA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposed Demerger is in the best interests of shareholders and whether the capital reduction materially prejudices GrainCorp's ability to pay its creditors. Grant Samuel expressly disclaims any liability to any GrainCorp shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Demerger Scheme Booklet issued by GrainCorp and has not verified or approved any of the contents of the Demerger Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Demerger Scheme Booklet (except for this report).

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with GrainCorp or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Demerger. Grant Samuel advises that it was engaged by GrainCorp and prepared an independent expert's report dated 24 June 2013 in relation to the takeover offer by ADM.

Grant Samuel had no part in the formulation of the Proposed Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposed Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

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8.4 Declarations

GrainCorp has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. GrainCorp has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by GrainCorp are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to GrainCorp and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Demerger Scheme Booklet to be sent to shareholders of GrainCorp. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

The accompanying letter dated 6 February 2020 forms part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

6 February 2020

ATTACHMENT B

Investigating Accountant's Report



Board of Directors
GrainCorp Limited (**GrainCorp**)
Level 28/175 Liverpool St,
Sydney NSW 2000

Board of Directors
United Malt Group Limited (**UMG**)
Level 28/175 Liverpool St,
Sydney NSW 2000

6 February 2020

Dear Directors,

Investigating Accountant's Report

Independent Limited Assurance Report on historical and pro forma historical financial information and Financial Services Guide

We have been engaged by GrainCorp and UMG (each, a **Company** and together, the **Companies**) to report on the UMG Historical Financial Information, GrainCorp Statutory Historical Financial Information, UMG Pro Forma Historical Financial Information and GrainCorp Post-Demerger Pro Forma Historical Financial Information (as those terms are defined in the "Scope" section of this report) (together, the **Demerger Financial Information**) for inclusion in the Demerger Scheme Booklet (**Demerger Scheme Booklet**) to be dated on or about 6 February 2020 and relating to the proposed demerger of UMG from GrainCorp by way of a scheme of arrangement, in the manner more fully described in the Demerger Scheme Booklet (the **Demerger**).

Expressions and terms defined in the Demerger Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

The Companies have requested PricewaterhouseCoopers Securities Ltd to review the following historical financial information included in the Demerger Scheme Booklet:

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au



“UMG Historical Financial Information”:

- UMG Historical Balance Sheet as at 30 September 2019, as set out in section 2.17 (h) of the Demerger Scheme Booklet.

“GrainCorp Statutory Historical Financial Information”:

- GrainCorp Statutory Historical Balance Sheet as at 30 September 2019, as set out in section 3.13 (j) of the Demerger Scheme Booklet.

The UMG Historical Financial Information and GrainCorp Statutory Historical Financial Information (together, the **Historical Financial Information**) has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and GrainCorp’s and UMG’s adopted accounting policies. The historical financial information has been extracted from the financial report of GrainCorp for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, which in each case was audited by PricewaterhouseCoopers in accordance with the Australian Auditing Standards. PricewaterhouseCoopers issued an unmodified audit opinion on each of the financial reports. The Historical Financial Information is presented in the Demerger Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

The Companies have requested PricewaterhouseCoopers Securities Ltd to review the following pro forma historical financial information included in the Demerger Scheme Booklet (in each case, which assumes completion of the Demerger):

“UMG Pro Forma Historical Financial Information”:

- UMG Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 2.17 (f) of the Demerger Scheme Booklet;
- UMG Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 2.17 (g) of the Demerger Scheme Booklet;
- UMG Pro Forma Historical Balance Sheet as at 30 September 2019, as set out in section 2.17 (h) of the Demerger Scheme Booklet.



“GrainCorp Post-Demerger Pro Forma Historical Financial Information”:

- GrainCorp Post-Demerger Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 3.13 (h) of the Demerger Scheme Booklet;
- GrainCorp Post-Demerger Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 3.13 (i) of the Demerger Scheme Booklet;
- GrainCorp Post-Demerger Pro Forma Historical Balance Sheet as at 30 September 2019, as set out in section 3.13 (j) of the Demerger Scheme Booklet.

The UMG Pro Forma Historical Financial Information and GrainCorp Post-Demerger Pro Forma Historical Financial Information (together, the **Pro Forma Historical Financial Information**) has been derived from the historical financial information of GrainCorp and UMG, after adjusting for the effects of pro forma adjustments described in sections 2.17 and 3.13 of the Demerger Scheme Booklet. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and GrainCorp’s and UMG’s (as applicable) adopted accounting policies applied to the UMG Historical Financial Information and GrainCorp Statutory Historical Financial Information (as applicable) and the events or transactions to which the pro forma adjustments relate, as described in sections 2.17 (b) and 3.13 (b) of the Demerger Scheme Booklet, as if those events or transactions had occurred as at the date of the UMG Historical Financial Information or GrainCorp Statutory Historical Financial Information (as applicable). Due to its nature, the UMG Pro Forma Historical Financial Information or GrainCorp Post-Demerger Pro Forma Historical Financial Information (as the case may be) does not represent UMG’s or GrainCorp’s (as applicable) actual or prospective financial position, financial performance, and/or cash flows.

Directors’ responsibility

The directors of GrainCorp are responsible for the preparation of the GrainCorp Statutory Historical Financial Information, GrainCorp Post-Demerger Pro Forma Historical Financial Information, UMG Historical Financial Information and UMG Pro Forma Historical Financial Information, including its basis of preparation and the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors of GrainCorp determine are necessary to enable the preparation of the Historical Financial Information and Pro Forma Historical Financial Information that is free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Demerger Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.



A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, comprising:

UMG Historical Financial Information:

- UMG Historical Balance Sheet as at 30 September 2019, as set out in section 2.17 (h) of the Demerger Scheme Booklet; and

GrainCorp Statutory Historical Financial Information:

- GrainCorp Statutory Historical Balance Sheet as at 30 September 2019, as set out in section 3.13 (j) of the Demerger Scheme Booklet,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 2.17 (b) and 3.13 (b) of the Demerger Scheme Booklet.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information, comprising:

UMG Pro Forma Historical Financial Information:

- UMG Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 2.17 (f) of the Demerger Scheme Booklet;
- UMG Pro Forma Historical Cash Flow Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 2.17 (g) of the Demerger Scheme Booklet;
- UMG Pro Forma Historical Balance Sheet as at 30 September 2019, as set out in section 2.17 (h) of the Demerger Scheme Booklet,

in each case, which assumes completion of the Demerger; and



GrainCorp Post-Demerger Pro Forma Historical Financial Information:

- GrainCorp Post-Demerger Pro Forma Historical Income Statements for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 3.13 (h) of the Demerger Scheme Booklet;
- GrainCorp Post-Demerger Pro Forma Historical Cash Flows for the years ended 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019, as set out in section 3.13 (i) of the Demerger Scheme Booklet;
- GrainCorp Post-Demerger Pro Forma Historical Balance Sheet as at 30 September 2019, as set out in section 3.13 (j) of the Demerger Scheme Booklet,

in each case, which assumes completion of the Demerger, is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 2.17 (b) and 3.13 (b) of the Demerger Scheme Booklet.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to the important notices section of the Demerger Scheme Booklet, which describes the purpose of the Demerger Financial Information, being for inclusion in the Demerger Scheme Booklet. As a result, the Demerger Financial Information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the Demerger Scheme Booklet in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd in respect of the inclusion of this report in the Demerger Scheme Booklet is limited to that inclusion. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Demerger Scheme Booklet.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Demerger other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.



Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

A handwritten signature in black ink that reads 'Clara Cutajar'.

Clara Cutajar
Authorised Representative of
PricewaterhouseCoopers Securities Ltd



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 6 February 2020

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (**PwC Securities**) has been engaged by GrainCorp Limited (**GrainCorp**) and United Malt Group Limited (**UMG**) (each, a **Company** and together, the **Companies**) to provide a report in the form of an Investigating Accountant's Report (the **Report**) in relation to the UMG Historical Financial Information, GrainCorp Statutory Historical Financial Information, UMG Pro Forma Historical Financial Information and GrainCorp Post-Demerger Pro Forma Historical Financial Information (as those terms are defined in the "Report") for inclusion in the Demerger Scheme Booklet (**Demerger Scheme Booklet**) to be dated on or about 6 February 2020 and relating to the proposed demerger of UMG from GrainCorp by way of a scheme of arrangement, in the manner more fully described in the Demerger Scheme Booklet.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.



You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees charged are \$750,000 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (**AFCA**), an external complaints resolution service. AFCA can be contacted by calling 1800 931 678. You will not be charged for using the AFCA service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Clara Cutajar
 Authorised representative of
 PricewaterhouseCoopers Securities Ltd
 One International Towers Sydney, Watermans Quay,
 Barangaroo NSW 2000
 GPO BOX 2650 Sydney NSW 2001

ATTACHMENT C

Demerger Scheme



Demerger Scheme of Arrangement

GrainCorp Limited (ACN 057 186 035)

Each person who is registered on the GrainCorp Register as the holder of GrainCorp Shares as at the Demerger Scheme Record Date

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Date:

Parties

- 1 **GrainCorp Limited (ACN 057 186 035)** of Level 28, 175 Liverpool Street, Sydney NSW 2000 (**GrainCorp**)
 - 2 Each person who is registered on the GrainCorp Register as the holder of GrainCorp Shares as at the Demerger Scheme Record Date (**Demerger Participants**)
-

Background

This Demerger Scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

The parties agree

1 Defined terms, interpretation and Demerger Scheme components

1.1 Defined terms

A term or expression starting with a capital letter which is defined in the dictionary in Schedule 1 has the meaning given to it in the dictionary.

1.2 Interpretation

The interpretation clause in Schedule 1 sets out rules of interpretation for this Demerger Scheme.

1.3 Demerger Scheme components

This Demerger Scheme includes any schedule to it.

2 Preliminary matters

2.1 GrainCorp

GrainCorp is:

- (a) a public company limited by shares;
- (b) incorporated in Australia and registered in Victoria; and
- (c) admitted to the Official List of the ASX.

2.2 Demerger Scheme Implementation Deed

GrainCorp and UMG have agreed to implement the terms of this Demerger Scheme by executing the Demerger Scheme Implementation Deed.

2.3 Demerger Deed Poll

UMG has executed the Demerger Deed Poll for the purpose of covenanting in favour of the Demerger Participants to perform (or procure the performance of) its obligations under, or contemplated by, this Demerger Scheme.

3 Conditions Precedent

3.1 Conditions precedent

This Demerger Scheme is conditional on, and will have no force or effect (and will not become Effective) until, the satisfaction of each of the following conditions precedent:

- (a) **(No change of GrainCorp Board recommendation)** between the date of the Demerger Scheme Booklet and the Demerger Scheme Meeting, a majority of the GrainCorp Directors continues to recommend, and does not change or withdraw their recommendation, to GrainCorp Shareholders to vote in favour of the Demerger Scheme Resolution and the Capital Reduction Resolution;
- (b) **(No termination)** as at the Delivery Time, each of the Demerger Scheme Implementation Deed and Demerger Deed Poll has not been validly terminated in accordance with their respective terms;
- (c) **(GrainCorp Shareholder approval)** GrainCorp Shareholders approving the following resolutions by the Requisite Majorities:
 - (i) the Demerger Scheme Resolution at the Demerger Scheme Meeting; and
 - (ii) the Capital Reduction Resolution at the General Meeting;
- (d) **(Regulatory Approvals)** all Regulatory Approvals have been obtained (either unconditionally or on conditions reasonably satisfactory to GrainCorp and UMG, each acting reasonably), and not revoked, before the Delivery Time;
- (e) **(UMG Listing)** before the Delivery Time, ASX approving the admission of UMG to the Official List and Official Quotation of UMG Shares on the ASX with effect on or before the Business Day after the Effective Date, subject only to the Demerger Scheme becoming Effective and such other conditions that are acceptable to GrainCorp and UMG (each acting reasonably); and
- (f) **(Court Approval)** the Court approving this Demerger Scheme in accordance with section 411(4)(b) of the Corporations Act (either unconditionally and without alteration or with alterations or conditions consented to by GrainCorp and UMG in accordance with clause 8.5) **(Court Approval Condition)**,

(each, a **Condition Precedent**).

3.2 Certificate

- (a) GrainCorp will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within its knowledge) whether or not all of the Conditions Precedent (other than the Court Approval Condition) have been satisfied.

- (b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such Conditions Precedent (other than the Court Approval Condition) were satisfied.

4 Demerger Scheme becoming Effective

4.1 Effective Date

Subject to the satisfaction of the Conditions Precedent set out in clause 3.1 and subject to clause 4.2 of this Demerger Scheme, this Demerger Scheme will become Effective on and from the Effective Date.

4.2 End Date

This Demerger Scheme will lapse and be of no further force or effect (and will not become Effective) if the Effective Date does not occur on or before the End Date.

5 Implementation of this Demerger Scheme

5.1 Lodgement of Court orders with ASIC

GrainCorp must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Demerger Scheme on the first Business Day after the date on which GrainCorp receives an office copy of those orders (or such later date as GrainCorp and UMG agree in writing).

5.2 Demerger Dividend Resolution

On or before the Demerger Implementation Date (and, in any event, no later than immediately before implementation of the steps set out in clauses 5.4 and 5.5), GrainCorp must procure that the GrainCorp Board passes the Demerger Dividend Resolution and declares the Demerger Dividend.

5.3 Subdivision of UMG Shares

On or before the Demerger Implementation Date (and, in any event, no later than immediately before implementation of the steps set out in clause 5.4), GrainCorp must procure (as sole shareholder of UMG) that UMG's share capital is subdivided so that the number of UMG Shares on issue is equal to the sum of the number of UMG Shares required to be transferred to Demerger Participants who are Eligible GrainCorp Shareholders (other than Selling Small Shareholders) and the Sale Agent in respect of the Selling Shareholders under clause 5.5 and the GrainCorp Retained Shares (rounded up to the nearest whole number, if required).

5.4 Implementation of the Capital Reduction, Demerger Dividend and Demerger Scheme

On or before Implementation on the Demerger Implementation Date, without the need for any further act by any Demerger Participant, GrainCorp will:

- (a) pay the Demerger Dividend in accordance with the terms of the Demerger Dividend Resolution;
- (b) reduce its share capital by the Capital Reduction Amount in accordance with the terms of the Capital Reduction Resolution; and

- (c) apply the Capital Reduction Entitlement and the Demerger Dividend Entitlement of each Demerger Participant in accordance with clause 5.5.

5.5 Entitlements of Demerger Participants

The Capital Reduction Entitlement and the Demerger Dividend Entitlement of each Demerger Participant will, on or before Implementation on the Demerger Implementation Date, be applied (without the need for any further act by a Demerger Participant) as follows:

- (a) for each Demerger Participant which is an Eligible GrainCorp Shareholder (that is not a Selling Small Shareholder), by GrainCorp as consideration in full for the transfer to that Eligible GrainCorp Shareholder of that number of UMG Shares which is equal to one UMG Share for each GrainCorp Share held by that Eligible GrainCorp Shareholder on the Demerger Scheme Record Date; and
- (b) for each Demerger Participant which is a Selling Shareholder, by GrainCorp as consideration in full for the transfer to the Sale Agent of that number of UMG Shares which is equal to one UMG Share for each GrainCorp Share held by that Selling Shareholder on the Demerger Scheme Record Date,

in accordance with clause 5.6.

5.6 Transfer of UMG Shares

The obligations of GrainCorp under clause 5.5 will be discharged by GrainCorp:

- (a) transferring all the UMG Shares (other than the GrainCorp Retained Shares) to the Demerger Participants (or in the case of Selling Shareholders, to the Sale Agent) in the numbers determined in accordance with clause 5.5; and
- (b) the entry in the UMG Register:
 - (i) of the name of each Demerger Participant (other than Selling Shareholders) in respect of the UMG Shares transferred to the relevant Demerger Participant; or
 - (ii) of the name of the Sale Agent in respect of those UMG Shares referred to in clause 5.5(b) for Selling Shareholders.

5.7 Selling Shareholders

GrainCorp will be under no obligation to transfer, and must not transfer, any UMG Shares under this Demerger Scheme to any Selling Shareholder and, instead, clauses 6.2 to 6.6 (inclusive) will apply in respect of those Selling Shareholders.

5.8 Despatch of holding statements

As soon as practicable after the Demerger Implementation Date and in accordance with the Listing Rules, GrainCorp will procure that UMG despatches or procures the despatch to:

- (a) each Demerger Participant (other than Selling Shareholders), holding statements for the UMG Shares transferred to the relevant Demerger Participant under clause 5.6; and

- (b) the Sale Agent, holding statements for the UMG Shares transferred to the Sale Agent in respect of the Selling Shareholders under clause 5.6,

by pre-paid post to their Registered Address as at the Demerger Scheme Record Date, or as otherwise validly directed by the relevant Demerger Participant (other than a Selling Shareholder) or Sale Agent.

5.9 Joint holders

In the case of Demerger Participants (who are not Selling Shareholders) who are joint holders of GrainCorp Shares:

- (a) entry in the UMG Register must take place in the same order as the holders' names appear in the GrainCorp Register;
- (b) holding statements in relation to the UMG Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the GrainCorp Register on the Demerger Scheme Record Date; and
- (c) any other document required to be sent to the joint holders under this Demerger Scheme will be forwarded to the holder whose name appears first in the GrainCorp Register as at the Demerger Scheme Record Date.

5.10 Demerger Participants without Registered Address

Clauses 5.8 and 5.9 do not apply to a Demerger Participant who does not have a Registered Address, or where GrainCorp and UMG believe that such Demerger Participant is not known at their Registered Address.

5.11 Status of UMG Shares

GrainCorp, in transferring UMG Shares to a Demerger Participant (other than a Selling Shareholder) or the Sale Agent pursuant to clause 5.6, is deemed to have warranted to the relevant transferee that each such UMG Share is, at the date of the transfer, fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests, whether legal or otherwise, of the GrainCorp Group or any person claiming through, under or in trust for the GrainCorp Group, and restrictions on transfer of any kind, and that it has full power and capacity to transfer the UMG Shares to Demerger Participants (other than Selling Shareholders) and the Sale Agent (together with any rights and entitlements attaching to those UMG Shares) pursuant to the Demerger Scheme.

6 Sale Facility

6.1 Sale Facility Election for Small Shareholders

- (a) A Demerger Participant that is a Small Shareholder may make a Sale Facility Election not to receive UMG Shares and to participate in the Sale Facility by completing a Sale Facility Election Form and returning it to the address specified in the Sale Facility Election Form so that it is received by the GrainCorp Registry (and not withdrawn) by no later than the Sale Facility Election Time.
- (b) A Small Shareholder may withdraw their Sale Facility Election under clause 6.1(a) by lodging a Sale Facility Election Withdrawal Form, provided that it is received by the GrainCorp Registry by no later than the Sale Facility Election Time.

- (c) A Sale Facility Election made under clause 6.1(a) may only be made in respect of all (and not some) of the GrainCorp Shares held by the relevant Small Shareholder.

6.2 Operation of the Sale Facility

- (a) Each Selling Shareholder will be taken to have directed GrainCorp to immediately transfer their entitlement to UMG Shares under this Demerger Scheme on the Demerger Implementation Date to the Sale Agent in accordance with clause 5.6 (and all such UMG Shares shall be referred to in this Demerger Scheme as the **Sale Shares**).
- (b) GrainCorp will procure, in accordance with the terms of the Sale Facility, that:
- (i) the Sale Agent, as soon as reasonably practicable (and, in any event, by no later than the end of the Sale Period), sells on a Licensed Market all the Sale Shares at such price or prices and on such other terms as the Sale Agent determines in its discretion (and at the risk of the Selling Shareholders), acting in good faith with the objective of seeking to achieve the best price reasonably obtainable, having regard to:
 - (A) the total number of Sale Shares;
 - (B) the prevailing market conditions (including the prevailing price of UMG Shares on the ASX);
 - (C) the prevailing demand for UMG Shares;
 - (D) the desire and requirement to maintain an orderly market in UMG Shares over the Sale Period; and
 - (E) the Sale Period;
 - (ii) the Sale Agent remits to the GrainCorp Registry the aggregate proceeds of sale of the Sale Shares (free of any brokerage costs) (**Aggregate Sale Facility Proceeds**) no later than 3 Business Days after the receipt by the Sale Agent of the proceeds of sale of all of the Sale Shares;
 - (iii) within 10 Business Days after receiving the Aggregate Sale Facility Proceeds, the GrainCorp Registry pays, or procures the payment, to each Selling Shareholder (in accordance with clause 6.2(c), but subject to clause 6.2(d)) an amount calculated as follows (**Sale Facility Proceeds Entitlement**):

$$(A \div B) \times C$$

Where:

A = the Aggregate Sale Facility Proceeds;

B = the total number of UMG Shares transferred to the Sale Agent under clause 5.6; and

C = the number of UMG Shares transferred to the Sale Agent under clause 5.6 in respect of that Selling Shareholder.

The payment of a Selling Shareholder's Sale Facility Proceeds Entitlement under this clause 6.1 represents that Selling Shareholder's entitlement to part of the Aggregate Sale Facility Proceeds under this Demerger Scheme. Any cash amount payable to a Selling Shareholder will be rounded down to the nearest whole Australian cent.

- (c) Subject to clauses 6.2(d), 6.2(e) and 6.3, a Selling Shareholder's Sale Facility Proceeds Entitlement must be paid to that Selling Shareholder by (in the absolute discretion of GrainCorp):
 - (i) where a Selling Shareholder has, before the Demerger Scheme Record Date, made a valid election in accordance with the requirements of the GrainCorp Registry to receive payments from GrainCorp by electronic funds transfer to a bank account nominated by the Selling Shareholder, paying, or procuring the payment of, the relevant amount in Australian dollars by electronic means in accordance with that election; or
 - (ii) by dispatching or procuring the dispatch of, a cheque for the relevant amount in Australian dollars to the Selling Shareholder by prepaid post to their Registered Address (as at the Demerger Scheme Record Date), such cheque being drawn in the name of the Selling Shareholder (or in the case of joint holders, in accordance with clause 6.2(d) below).
- (d) In the case of Selling Shareholders who are joint holders of GrainCorp Shares:
 - (i) any cheque required to be sent to those joint holders under this Demerger Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the GrainCorp Register as at the Demerger Scheme Record Date; and
 - (ii) any other document required to be sent to the joint holders under this Demerger Scheme will be forwarded to the holder whose name appears first in the GrainCorp Register as at the Demerger Scheme Record Date.
- (e) If GrainCorp receives professional advice that any withholding or other tax is required by law to be withheld from a payment to a Selling Shareholder under this clause 6.2, GrainCorp is entitled to withhold the relevant amount before making the payment to the Selling Shareholder (and payment of the reduced amount shall be taken to be full payment of the relevant amount for the purposes of this Demerger Scheme, including this clause 6.2). GrainCorp must pay any amount so withheld to the relevant taxation authorities within the time permitted by law, and, if requested in writing by the relevant Selling Shareholder, provide a receipt or other appropriate evidence of such payment (or procure the provision of such receipt or other evidence) to the relevant Selling Shareholder.
- (f) None of GrainCorp, UMG or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Sale Shares described in clause 6.2(b)(i). The sale of Sale Shares under this clause 6.2 will be at the risk of the Selling Shareholder.

6.3 Unclaimed Sale Facility Proceeds Entitlements

- (a) GrainCorp may cancel a cheque issued under clause 6.2(c)(ii) if the cheque:
 - (i) is returned to GrainCorp; or

- (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) In the event that:
 - (i) either:
 - (A) a Selling Shareholder does not have a Registered Address; or
 - (B) GrainCorp believes that a Selling Shareholder is not known at the Selling Shareholder's Registered Address,

and the Selling Shareholder has not made an election in accordance with the requirements of the GrainCorp Registry to receive payments from GrainCorp by electronic funds transfer to a bank account nominated by the Selling Shareholder in accordance with clause 6.2(c)(i), or a deposit into such an account is rejected or refunded; or
 - (ii) a cheque issued under clause 6.2(c)(ii) has been cancelled in accordance with clause 6.3(a),

GrainCorp may credit the amount payable to the relevant Selling Shareholder to a separate bank account of GrainCorp (**Separate Account**) to be held until the Selling Shareholder claims the amount or the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW). Until such time as the amount is dealt with in accordance with the *Unclaimed Money Act 1995* (NSW), GrainCorp must hold the amount on trust for the relevant Selling Shareholder, but any interest or other benefit accruing from the amount will be to the benefit of GrainCorp. An amount credited to the Separate Account is to be treated as having been paid to the Selling Shareholder when credited to the Separate Account. GrainCorp must maintain records of the amounts paid, the Selling Shareholders who are entitled to the amounts and any transfers of the amounts.

- (c) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Sale Facility Proceeds Entitlement which becomes 'unclaimed money' (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).

6.4 Satisfaction of obligations

GrainCorp, by complying with the terms of clause 6.2 in respect of a Selling Shareholder, will be taken to have satisfied and discharged its obligations to the relevant Selling Shareholder under the terms of the Capital Reduction Resolution, the Demerger Dividend Resolution and the Demerger Scheme. A Selling Shareholder will have no claim against GrainCorp or UMG for any entitlement they would have had to UMG Shares but for the terms of this Demerger Scheme.

6.5 Acknowledgement

Under this Demerger Scheme, each Selling Shareholder (including those Selling Shareholders who do not attend the Demerger Scheme Meeting to approve the Demerger Scheme or General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Demerger Scheme or Capital Reduction Resolution) agrees and acknowledges that the sale under the Sale Facility in respect of that person's entitlement to UMG Shares under this Demerger Scheme by operation of clause 6.2 constitutes satisfaction of all that person's entitlements in and to that person's Demerger Distribution Entitlement and that person's entitlement to UMG Shares under this Demerger Scheme.

6.6 Appointment as agent

Each Selling Shareholder appoints GrainCorp as its agent to receive on its behalf any financial services guide or other notices which may be issued by the Sale Agent to that Selling Shareholder.

7 Dealings in GrainCorp Shares

7.1 GrainCorp Register

Subject to the Corporations Act, the Listing Rules and the Settlement Operating Rules, the establishment of who are Demerger Participants and their respective entitlements, will be determined solely on the basis of the GrainCorp Register and this Demerger Scheme.

7.2 Determination of Demerger Participants

To establish the identity of the Demerger Participants, dealings in GrainCorp Shares or other alterations to the GrainCorp Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the GrainCorp Register as the holder of the relevant GrainCorp Shares on or before the Demerger Scheme Record Date; and
- (b) in all other cases, registrable transfers or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Demerger Scheme Record Date by the GrainCorp Registry,

and, for the purpose of establishing the identity of the Demerger Participants, GrainCorp will not accept for registration, nor recognise for any purpose, any transfer or transmission application or other request received after such times or received prior to such times but not in registrable or actionable form, as appropriate.

8 General Demerger Scheme provisions

8.1 Agreement to become a member of UMG

Under this Demerger Scheme, each Demerger Participant (including those Demerger Participants who do not attend the Demerger Scheme Meeting to approve the Demerger Scheme or General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Demerger Scheme or Capital Reduction Resolution) who will receive UMG Shares:

- (a) agrees to become a member of UMG, to have their name entered in the UMG Register, accepts the UMG Shares transferred to them and agrees to be bound by the UMG Constitution; and
- (b) agrees and acknowledges that the transfer of UMG Shares in accordance with clause 5.5 constitutes satisfaction of all that person's entitlements in and to that person's Demerger Distribution Entitlement,

without the need for any further act by a Demerger Participant.

This clause 8.1 does not apply to Selling Shareholders.

8.2 Appointment of attorney and agent

- (a) Each Demerger Participant, without the need for any further act by any Demerger Participant, irrevocably appoints GrainCorp and each GrainCorp Director and Company Secretary of GrainCorp (jointly and each of them severally) as its attorney and agent for the purpose of executing any document or doing any other act necessary or desirable to give effect to the terms of this Demerger Scheme, including without limitation:
 - (i) the execution and delivery of any form or document necessary or expedient to effect the transfer of UMG Shares to Demerger Participants who are Eligible GrainCorp Shareholders, the Sale Agent or any other person in accordance with the terms of this Demerger Scheme;
 - (ii) executing and delivering any document or form, or doing any other act necessary, to give effect to the terms of this Demerger Scheme, including, without limitation, the communication of the Demerger Participants' consent, agreement, notification or instructions under clauses 6, 8.1, 8.3, 8.4 or 8.5; and
 - (iii) the enforcement of the Demerger Deed Poll against UMG,
 and GrainCorp accepts such appointment.
- (b) GrainCorp, as agent of each Demerger Participant, may sub-delegate its functions under clause 8.2(a) to all or any of its directors and secretaries (jointly and severally).

8.3 Instructions to GrainCorp

To the extent permitted by law, binding instructions or notifications between an Eligible GrainCorp Shareholder and GrainCorp relating to GrainCorp Shares or an Eligible GrainCorp Shareholder's status as a GrainCorp Shareholder (including, without limitation, any instructions in relation to payment of amounts or dividends (excluding GrainCorp's dividend investment plan) or communications from GrainCorp) will, from the Demerger Scheme Record Date, be deemed by reason of this Demerger Scheme to be similarly binding instructions or notifications to, and accepted by, UMG in respect of the UMG Shares transferred to Demerger Participants who are Eligible GrainCorp Shareholders until those instructions or notifications are, in each case, revoked or amended in writing addressed to UMG at its share registry.

8.4 Demerger Participants' consent

Each Demerger Participant:

- (a) irrevocably consents to GrainCorp doing all things necessary, incidental or expedient for or to the implementation and performance of the Demerger Scheme; and
- (b) acknowledges that the Demerger Scheme binds GrainCorp and all of the Demerger Participants from time to time (including those who do not attend the Demerger Scheme Meeting to approve the Demerger Scheme or the General Meeting to approve the Capital Reduction Resolution, do not vote at either meeting or vote against the Demerger Scheme or Capital Reduction Resolution).

8.5 Amendments to the Demerger Scheme

GrainCorp may, by its counsel and with the consent of UMG, consent, on behalf of all persons concerned (including a Demerger Participant), to any variations, alterations or conditions to this Demerger Scheme as the Court thinks fit to make or impose.

8.6 Further action by GrainCorp

GrainCorp will execute all documents and do all acts and things necessary or desirable for the implementation and performance of its obligations under this Demerger Scheme and will, on behalf of Demerger Participants, procure UMG to execute all documents and do all acts and things necessary or desirable for the implementation and performance of the steps attributed to UMG under this Demerger Scheme.

8.7 Demerger Scheme binding

To the extent of any inconsistency between this Demerger Scheme and the GrainCorp Constitution, this Demerger Scheme overrides the Constitution and binds GrainCorp and all Demerger Participants.

8.8 Enforcement of Demerger Deed Poll

GrainCorp undertakes in favour of each Demerger Participant that it will enforce the Demerger Deed Poll against UMG on behalf of and as agent and attorney for Demerger Participants.

9 General**9.1 Notices**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Demerger Scheme is sent by post to GrainCorp, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at GrainCorp's registered office or at the office of the GrainCorp Registry.
- (b) The accidental omission to give notice of the Demerger Scheme Meeting or General Meeting or the non-receipt of such notice by a GrainCorp Shareholder will not, unless so ordered by the Court, invalidate the Demerger Scheme Meeting, the General Meeting or the proceedings of the Demerger Scheme Meeting or General Meeting.

9.2 Governing law and jurisdiction

- (a) This Demerger Scheme is governed by the law in force in New South Wales, Australia.
- (b) GrainCorp and each GrainCorp Shareholder irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Demerger Scheme. GrainCorp and each GrainCorp Shareholder irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

9.3 No liability when acting in good faith

Each Demerger Participant agrees that neither GrainCorp nor UMG nor any director, officer, secretary or employee of either of those companies will be liable for anything done or omitted to be done in the performance of this Demerger Scheme or the Demerger Deed Poll in good faith.

Schedule 1 Definitions and interpretation

1 Definitions

The meanings of the terms used in this Demerger Scheme are set out below.

Aggregate Sale Facility Proceeds has the meaning given to that term in clause 6.2(b)(ii).

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

ASX Operating Rules means the market operating rules of ASX Settlement, as amended, varied or waived from time to time.

ASX Settlement means ASX Settlement Pty Limited (ABN 49 008 504 532) as the holder of a licence to operate a clearing and settlement facility.

Business Day has the meaning given to that term in the Listing Rules.

Capital Reduction means the reduction of the share capital of GrainCorp by the Capital Reduction Amount, with such aggregate amount to be divided and applied equally against each GrainCorp Share on issue as at the Demerger Scheme Record Date in accordance with the terms of the Capital Reduction Resolution.

Capital Reduction Amount means the aggregate amount of the capital of GrainCorp that is to be reduced in accordance with the terms of the Capital Reduction Resolution, calculated as follows:

$$\text{Capital Reduction Amount} = \text{GSCA} \times (\text{MMV} / (\text{MMV} + \text{GMV}))$$

where:

GSCA = the GrainCorp Share Capital Amount;

MMV = the UMG Market Value; and

GMV = the GrainCorp Market Value.

Capital Reduction Entitlement means in relation to a Demerger Participant, the Capital Reduction Amount, divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date, then multiplied by the number of GrainCorp Shares held by the Demerger Participant on the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Capital Reduction Resolution means the resolution to approve the Capital Reduction to be considered by GrainCorp Shareholders at the General Meeting.

CHES means the Clearing House Electronic Subregister System, which provides for electronic share transfers in Australia and is operated by ASX Settlement.

Condition Precedent has the meaning given to that term in clause 3.1.

Corporations Act means the *Corporations Act 2001* (Cth) and the regulations made under that Act, as amended from time to time.

Court means the Federal Court of Australia (or such other court of competent jurisdiction as GrainCorp and UMG may agree in writing).

Court Approval Condition has the meaning given to that term in clause 3.1(f).

Delivery Time means, in relation to the Second Court Date, 2 hours before the commencement of the Second Court Hearing (or, if the commencement of the Second Court Hearing is adjourned, the commencement of the adjourned Second Court Hearing).

Demerger means the proposed demerger of UMG from GrainCorp, to be implemented through:

- (a) the Demerger Scheme, Demerger Dividend and Capital Reduction; and
- (b) the UMG Listing.

Demerger Deed Poll means the deed poll executed by UMG under which UMG covenants in favour of each Demerger Participant to perform its obligations under this Demerger Scheme, a copy of which is at Attachment D of the Demerger Scheme Booklet (subject to any amendments permitted by its terms).

Demerger Distribution Amount means an amount equal to the UMG Market Value.

Demerger Distribution Entitlement means, in relation to a Demerger Participant, the aggregate of that Demerger Participant's Demerger Dividend Entitlement and Capital Reduction Entitlement.

Demerger Dividend means the special dividend of an amount per GrainCorp Share which is equal to the Demerger Dividend Amount divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Demerger Dividend Amount means an amount equal to the Demerger Distribution Amount less the Capital Reduction Amount.

Demerger Dividend Entitlement means, in relation to a Demerger Participant, the Demerger Dividend Amount, divided by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date, then multiplied by the number of GrainCorp Shares held by the Demerger Participant on the Demerger Scheme Record Date (rounded to the nearest Australian cent).

Demerger Dividend Resolution means a resolution of the GrainCorp Board to approve the declaration and payment of the Demerger Dividend for each GrainCorp Share on issue at the Demerger Scheme Record Date.

Demerger Implementation Date means the date that is five Business Days after the Demerger Scheme Record Date, or such other date as:

- (a) GrainCorp and UMG may agree in writing;
- (b) ordered by the Court; or
- (c) may be required by ASX.

Demerger Participant means, subject to clause 7.1, a GrainCorp Shareholder as at the Demerger Scheme Record Date.

Demerger Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between GrainCorp and the Demerger Participants, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and consented to by GrainCorp and UMG in accordance with clause 8.5.

Demerger Scheme Booklet means the Demerger Scheme Booklet published by GrainCorp explaining the Demerger and containing, among other things, the Demerger Scheme, an explanatory statement in relation to the Demerger Scheme as required by Part 5.1 of the Corporations Act and the notice of meeting for the Demerger Scheme Meeting.

Demerger Scheme Implementation Deed means the implementation deed dated 13 January 2020 between GrainCorp and UMG under which, amongst other things, GrainCorp has agreed to propose this Demerger Scheme to the GrainCorp Shareholders, and each of GrainCorp and UMG has agreed to take certain steps to give effect to this Demerger Scheme.

Demerger Scheme Meeting means the meeting of GrainCorp Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider the Demerger Scheme Resolution, and includes any adjournment of that meeting.

Demerger Scheme Record Date means the time and date for determining entitlements to UMG Shares in accordance with clause 5.5, being 7:00pm on the second Business Day after the Effective Date, or such other date as GrainCorp and UMG may agree in writing.

Demerger Scheme Resolution means the resolution to approve the Demerger Scheme to be considered by GrainCorp Shareholders at the Demerger Scheme Meeting.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Demerger Scheme.

Effective Date means the date on which this Demerger Scheme becomes Effective.

Eligible GrainCorp Shareholder means a GrainCorp Shareholder whose Registered Address is in one of the following jurisdictions:

- (a) Australia and its external territories;
- (b) The Bahamas;
- (c) Canada;
- (d) Germany;
- (e) Hong Kong;
- (f) Isle of Man;
- (g) New Zealand;
- (h) United Kingdom;

- (i) United States; or
- (j) any other jurisdiction in which GrainCorp reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the UMG Shares to the GrainCorp Shareholder.

End Date means 30 June 2020, or such later date as is agreed in writing by GrainCorp and UMG and, if required, approved by the Court.

General Meeting means the general meeting of GrainCorp Shareholders convened to consider the Capital Reduction Resolution (and includes any adjournment of that meeting).

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal, statutory or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. It also includes any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel).

GrainCorp Board means the board of directors of GrainCorp from time to time.

GrainCorp Constitution means the constitution of GrainCorp, as amended from time to time.

GrainCorp Directors means the directors of GrainCorp from time to time.

GrainCorp Group means GrainCorp and its subsidiaries, other than UMG and any of its subsidiaries.

GrainCorp Market Value means the VWAP of GrainCorp Shares for the first 5 Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of UMG Shares on the ASX multiplied by the number of GrainCorp Shares on issue on the Demerger Scheme Record Date.

GrainCorp Register means the register of GrainCorp Shareholders maintained by GrainCorp in accordance with the Corporations Act.

GrainCorp Registry means Link Market Services Limited (ACN 083 214 537) in its capacity as provider of registry services in respect of the GrainCorp Register.

GrainCorp Retained Shares means the number of UMG Shares to be retained by GrainCorp on implementation of the Demerger, being the number of UMG Shares that represents 10% of all UMG Shares on issue as at immediately after implementation of the Demerger.

GrainCorp Share means a fully paid ordinary share in GrainCorp.

GrainCorp Share Capital Amount means the balance of GrainCorp's share capital account immediately before the Demerger Implementation Date.

GrainCorp Shareholder means a person who is registered in the GrainCorp Register as the holder of a GrainCorp Share.

Implementation means the completion of the Demerger on the Demerger Implementation Date.

Ineligible Foreign Holder means a Demerger Participant who is not an Eligible GrainCorp Shareholder.

Licensed Market means a financial market the operation of which is authorised by an Australian market licence under section 795B of the Corporations Act.

Listing Rules means the official listing rules of ASX from time to time, as modified by any express written waiver or exemption given by ASX.

Official List means the Official List of the ASX.

Official Quotation means the quotation of UMG Shares on the Official List.

Registered Address means, in relation to a GrainCorp Shareholder, the address shown in the GrainCorp Register as at the Demerger Scheme Record Date.

Regulatory Approvals means such approvals, consents, waivers or other acts from or by Regulatory Authorities as are necessary or, in the opinion of GrainCorp and UMG (each acting reasonably), desirable in connection with or to implement the Demerger.

Regulatory Authority includes:

- (a) ASX, ASIC and the Australian Competition and Consumer Commission;
- (b) a government or governmental, semi-governmental or judicial entity or authority (including a Government Agency);
- (c) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (d) any regulatory organisation established under statute.

Requisite Majority means:

- (a) in relation to the Demerger Scheme Resolution to be considered by GrainCorp Shareholders at the Demerger Scheme Meeting, the resolution being passed by:
 - (i) a majority in number (more than 50%) of GrainCorp Shareholders, who are present and voting at the Demerger Scheme Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
 - (ii) at least 75% of the votes cast on the resolution by GrainCorp Shareholders, who are present and voting at the Demerger Scheme Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative; and
- (b) in relation to the Capital Reduction Resolution to be considered by GrainCorp Shareholders at the General Meeting, the resolution being passed by at least 50% of the votes cast on the resolution by GrainCorp Shareholders, who are present and voting at the General Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative.

Sale Agent means the nominee appointed by GrainCorp to sell or facilitate the transfer of the UMG Shares that Selling Shareholders would otherwise be entitled to receive under this Demerger Scheme, as contemplated by clause 6, in accordance with the Sale Facility.

Sale Facility means the facility to be established and implemented by GrainCorp under which UMG Shares may be sold pursuant to clause 6.

Sale Facility Election means a valid election not to receive UMG Shares and to participate in the Sale Facility made by a Small Shareholder under clause 6.1.

Sale Facility Election Form means the form specified by GrainCorp to be completed by Small Shareholders who wish to participate in the Sale Facility.

Sale Facility Election Time means 5:00pm on the Effective Date or any other time and date agreed between GrainCorp and UMG (each acting reasonably).

Sale Facility Election Withdrawal Form means the form specified by GrainCorp to be completed by a Small Shareholder to withdraw their Sale Facility Election.

Sale Facility Proceeds Entitlement has the meaning given to that term in clause 6.2(b)(iii)

Sale Period means the period on and from the Demerger Implementation Date to and including the 20th Business Day after that date (or, subject to obtaining any necessary ASIC exemptions or relief, such longer period of time which GrainCorp and the Sale Agent determine).

Sale Shares has the meaning given to that term in clause 6.2(a).

Second Court Date means the first day on which an application made to the Court by GrainCorp for an order under section 411(4)(b) of the Corporations Act approving the Demerger Scheme is heard (or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard), with such hearing being the **Second Court Hearing**.

Selling Shareholder means a Selling Small Shareholder or an Ineligible Foreign Holder.

Selling Small Shareholder means a Small Shareholder who has made a valid Sale Facility Election.

Separate Account has the meaning given to that term in clause 6.3(b).

Small Shareholder means an Eligible GrainCorp Shareholder who individually holds 500 or fewer GrainCorp Shares as at the Demerger Scheme Record Date.

UMG means United Malt Group Limited (ACN 140 174 189).

UMG Constitution means the constitution of UMG, as amended from time to time.

UMG Listing means the admission of UMG to the Official List and for Official Quotation of the UMG Shares on ASX.

UMG Market Value means the VWAP of UMG Shares for the first five Business Days starting from the date of the commencement of trading (whether on a normal or deferred settlement basis) of UMG Shares on the ASX, multiplied by the number of UMG Shares on issue immediately after implementation of the Demerger.

UMG Register means the register of UMG Shareholders maintained by UMG in accordance with the Corporations Act.

UMG Share means a fully paid ordinary share in UMG.

UMG Shareholder means a person who is registered in the UMG Register as a holder of a UMG Share following implementation of the Demerger.

VWAP means the volume weighted average price of the relevant shares traded on ASX during the relevant period but does not include any trades which GrainCorp determines to be outside the ordinary course of trading, which may include any "Crossing" transacted outside the "Open Session State" or any "Special Crossing" transacted at any time, each as defined in the ASX Operating Rules, or any overseas trades or trades pursuant to the exercise of options over such shares.

2 Interpretation

In this Demerger Scheme:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this Demerger Scheme;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;
- (d) other parts of speech and grammatical forms of a word or phrase defined in this Demerger Scheme have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, trust, association, corporation or other body corporate and any Government Agency as well as an individual;
- (f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Demerger Scheme;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them (whether passed by the same or another Government Agency with legal power to do so);
- (h) a reference to a document (including this Demerger Scheme) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) a reference to 'A\$' or 'dollar' is to Australian currency;
- (j) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney, Australia;
- (k) a term defined in or for the purposes of the Corporations Act, and which is not defined in clause 1 of this Schedule 1, has the same meaning when used in this Demerger Scheme;
- (l) a reference to a party to a document includes that party's successors and permitted assignees;
- (m) no provision of this Demerger Scheme will be construed adversely to a party because that party was responsible for the preparation of this Demerger Scheme or that provision;

- (n) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;
- (o) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly;
- (p) a reference to a body, other than a party to this Demerger Scheme (including an institute, association or authority), whether statutory or not:
 - (i) which ceases to exist; or
 - (ii) whose powers or functions are transferred to another body,is a reference to the body which replaces it or which substantially succeeds to its powers or functions;
- (q) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (r) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later; and
- (s) a reference to the Listing Rules, ASX Operating Rules or the Settlement Operating Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

3 Interpretation of inclusive expressions

Specifying anything in this Demerger Scheme after the words 'include' or 'for example' or similar expressions does not limit what else is included.

4 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

Attachment A Demerger Deed Poll

Not reproduced here – please see Attachment D of the Demerger Scheme Booklet

ATTACHMENT D

Demerger Deed Poll



Demerger Deed Poll

United Malt Group Limited (ACN 140 174 189)

In favour of each person who is registered on the GrainCorp Register as the holder of GrainCorp Shares as at the Demerger Scheme Record Date

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Date: 13 January 2020

Parties

- 1 **United Malt Group Limited (ACN 140 174 189)** of Level 28, 175 Liverpool Street, Sydney NSW 2000 (**UMG**)
- 2 In favour of each person who is registered on the GrainCorp Register as the holder of GrainCorp Shares as at the Demerger Scheme Record Date (**Demerger Participants**)

Background

- A UMG and GrainCorp have agreed to implement the Demerger Scheme by executing the Demerger Scheme Implementation Deed.
- B Under the Demerger Scheme Implementation Deed, GrainCorp agreed to propose the Demerger Scheme.
- C Under the Demerger Scheme Implementation Deed, UMG agreed to enter into this deed poll.
- D In accordance with the Demerger Scheme Implementation Deed, UMG enters into this deed poll for the purpose of covenanting in favour of Demerger Participants to perform the actions attributed to it under the Demerger Scheme.

This deed poll provides as follows

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, terms defined in the Demerger Scheme have the same meaning when used in this deed poll. In addition, in this deed poll, the following defined terms have the meaning set out below:

Demerger Scheme means the scheme of arrangement under Part 5.1 of the Corporations Act between GrainCorp and the Demerger Participants, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and consented to by GrainCorp and UMG in accordance with the terms of the Demerger Scheme.

1.2 Interpretation

In this deed poll:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this deed poll;
- (b) the singular includes the plural and the plural includes the singular;
- (c) words of any gender include all genders;

- (d) other parts of speech and grammatical forms of a word or phrase defined in this deed poll have a corresponding meaning;
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;
- (f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this deed poll;
- (g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them (whether passed by the same or another Government Agency with legal power to do so);
- (h) a reference to a document (including this deed poll) includes all amendments or supplements to, or replacements or novations of, that document;
- (i) the word 'includes' in any form is not a word of limitation;
- (j) a reference to 'A\$' or 'dollar' is to Australian currency;
- (k) a reference to any time is, unless otherwise indicated, a reference to that time in Sydney, Australia;
- (l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this deed poll; and
- (m) a reference to the Listing Rules includes any variation, consolidation or replacement of these rules and is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

1.4 Nature of this deed poll

UMG acknowledges and agrees that:

- (a) this deed poll may be relied on and enforced by any Demerger Participant in accordance with its terms even though the Demerger Participants are not party to it; and
- (b) under the Demerger Scheme, each Demerger Participant irrevocably appoints GrainCorp and each GrainCorp Director and Company Secretary of GrainCorp (jointly and each of them severally) as its attorney and agent to enforce this deed poll against UMG on its behalf.

2 Condition precedent and termination of this deed poll

2.1 Condition precedent

UMG's obligations under this deed poll are subject to the Demerger Scheme becoming Effective.

2.2 Termination of this deed poll

Subject to clause 2.3, unless GrainCorp and UMG otherwise agree in writing, the obligations of UMG under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Demerger Scheme does not become Effective on or before the End Date; or
- (b) the Demerger Scheme Implementation Deed is terminated in accordance with its terms.

2.3 Consequences of termination of this deed poll

If this deed poll is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Demerger Participants:

- (a) UMG is released from its obligations to further perform this deed poll (other than any obligations under clause 8); and
- (b) each Demerger Participant retains the rights, powers and remedies it has against UMG in respect of any breach of this deed poll which occurs before it is terminated.

3 Transfer of UMG Shares
3.1 Agreement to become members of UMG

Under clause 8.1 of the Demerger Scheme, each Demerger Participant (other than Selling Shareholders) agrees to become a member of UMG, to have their name entered in the UMG Share Register, to accept the UMG Shares transferred to them and agrees to be bound by the UMG Constitution.

3.2 Subdivision of UMG Shares

On or before the Demerger Implementation Date (and, in any event, no later than immediately before implementation of the steps set out in clauses 5.4 of the Demerger Scheme), UMG must take all steps necessary to ensure that UMG's share capital is subdivided so that the number of UMG Shares on issue is equal to the sum of the number of UMG Shares required to be transferred to Eligible GrainCorp Shareholders (other than Selling Small Shareholders) and to the Sale Agent in respect of the Selling Shareholders under clause 5.6(a) of the Demerger Scheme and the GrainCorp Retained Shares (rounded up to the nearest whole number, if required).

3.3 Obligation to update UMG Register

On or before Implementation on the Demerger Implementation Date, UMG must enter (or procure the entry) into the UMG Register of:

- (a) each Demerger Participant (other than Selling Shareholders) in respect of the UMG Shares transferred to the relevant Demerger Participant in accordance with Demerger Scheme; and
- (b) the Sale Agent, in respect of the UMG Shares transferred to the Sale Agent on behalf of the Selling Shareholders in accordance with the Demerger Scheme.

3.4 Despatch of holding statements

- (a) In accordance with clause 5.8 of the Demerger Scheme, as soon as practicable after the Demerger Implementation Date and in accordance with the Listing Rules, UMG must despatch or procure the despatch to:
 - (i) each Demerger Participant (other than Selling Shareholders), holding statements for the UMG Shares transferred to the relevant Demerger Participant in accordance with the Demerger Scheme; and
 - (ii) the Sale Agent, holding statements for the UMG Shares transferred to the Sale Agent on behalf of the Selling Shareholders in accordance with Demerger Scheme,

by pre-paid post to their Registered Address as at the Demerger Scheme Record Date, or as otherwise validly directed by the relevant Demerger Participant (other than a Selling Shareholder) or Sale Agent.
- (b) In the case of Demerger Participants (who are not Selling Shareholders) who are joint holders of GrainCorp Shares:
 - (i) entry in the UMG Register must take place in the same order as the holders' names appear in the GrainCorp Register;
 - (ii) holding statements in relation to the UMG Shares will be issued in the name of the joint holders and will be forwarded to the holder whose name appears first in the GrainCorp Register on the Demerger Scheme Record Date; and
 - (iii) any other document required to be sent to the joint holders in accordance with the Demerger Scheme will be forwarded to the holder whose name appears first in the GrainCorp Register as at the Demerger Scheme Record Date.
- (c) This clause 3.4 does not apply to a Demerger Participant (other than a Selling Shareholder) who does not have a Registered Address, or where GrainCorp and UMG believe that such Demerger Participant (other than a Selling Shareholder) is not known at their Registered Address.

4 Other obligations of UMG

4.1 Official Quotation of UMG Shares

UMG must apply for admission of UMG to the Official List and for Official Quotation of UMG Shares on the ASX with effect on or before the Business Day after the Effective Date, subject only to the Demerger Scheme becoming Effective and such other conditions that are acceptable to GrainCorp and UMG (each acting reasonably).

4.2 General

UMG covenants in favour of Demerger Participants to:

- (a) observe and perform the steps attributed to it under, and to otherwise comply with, the Demerger Scheme as if UMG was named as a party to the Demerger Scheme; and
- (b) do all acts and things necessary to give effect to the Demerger Scheme.

5 Representations and warranties

UMG represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform, or cause to be performed, its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll is valid and binding on it and is enforceable against it in accordance with its terms.

6 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) UMG has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

7 Notices

7.1 How and where Notices may be sent

A notice or other communication in respect of this deed poll (**Notice**) must be in writing and delivered by hand or sent by pre-paid post or email to UMG at the address or the email address for UMG set out below or as otherwise specified by UMG by Notice:

Attention: Mark Palmquist

Address: Level 28, 175 Liverpool Street, Sydney NSW 2000

Email address: mark.palmquist@graincorp.com

Copy to:

Attention: John Williamson-Noble, Gilbert + Tobin

Address: Level 35, Tower Two, International Towers Sydney, 200 Barangaroo Avenue, Barangaroo NSW 2000

Email address: JWilliamson-Noble@gtlaw.com.au

7.2 Notices to be in legible writing in English

A Notice to or by UMG must be in legible writing and in English.

7.3 When Notices are taken to have been given and received

- (a) A Notice sent by post is regarded as given and received in the ordinary course of post.
- (b) A Notice sent by email is regarded as given and received when the email (including any attachment) comes to the attention of the recipient or a person acting on the recipient's behalf.
- (c) A Notice delivered or received other than on a Business Day or after 4:00pm (recipient's time) is regarded as received at 9:00am on the following Business Day and a Notice delivered or received before 9:00am (recipient's time) is regarded as received at 9:00am.

8 General

8.1 Governing law and jurisdiction

- (a) This deed poll is governed by the law in force in New South Wales, Australia.
- (b) UMG irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. UMG irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

8.2 Waiver

- (a) UMG may not rely on the words or conduct of any Demerger Participant as a waiver of any right unless the waiver is in writing and signed by the Demerger Participant granting the waiver.
- (b) No Demerger Participant may rely on the words or conduct of UMG as a waiver of any right unless the waiver is in writing and signed by UMG.
- (c) The meanings of the terms used in this clause are set out below.

conduct includes delay in the exercise of a right.

right means any right arising under or in connection with this deed poll and includes the right to rely on this clause.

waiver includes an election between rights and remedies and conduct which might otherwise give rise to an estoppel.

8.3 Variation

A provision of this deed poll or any right created under it may not be varied, altered or otherwise amended unless:

- (a) the variation is agreed to by GrainCorp and UMG in writing; and
- (b) the Court has indicated that the variation, alteration or amendment would not itself preclude approval of the Demerger Scheme,

in which event UMG must enter into a further deed poll in favour of the Demerger Participants giving effect to the variation, alteration or amendment.

8.4 Cumulative rights, powers and remedies

The rights, powers and remedies of UMG and the Demerger Participants under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.5 Assignment

The rights and obligations created by this deed poll are personal to UMG and each Demerger Participant, and UMG and each Demerger Participant may not assign or otherwise deal with its rights under this deed poll without the consent of UMG and GrainCorp.

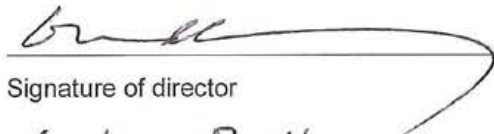
8.6 Further action to be taken at UMG' expense

UMG must, at its own expense (unless agreed to be borne by GrainCorp), do all things and execute all documents (on its own behalf or on behalf of each Demerger Participant) necessary to give effect to this deed poll.


Execution page

Executed as a deed poll.

Signed and delivered by **United Malt Group Limited (ACN 140 174 189)** in accordance with section 127 of the *Corporations Act 2001* (Cth) by:


Signature of director
Graham Bradley

Name of director (print)


Signature of director/secretary
Mark Palmquist

Name of director/secretary (print)

ATTACHMENT E

Notice of Demerger Scheme Meeting

GrainCorp Limited (ACN 057 186 035)

Notice is hereby given that, by an order of the Federal Court of Australia (**Court**) made on Wednesday, 5 February 2020 pursuant to section 411(1) of the *Corporations Act 2001 (Cth)* (**Corporations Act**), a meeting of the holders of ordinary shares in GrainCorp Limited (ACN 057 186 035) (**GrainCorp**) will be held at 10:00am on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.

Business of the Demerger Scheme Meeting – the Demerger Scheme Resolution

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

“That pursuant to, and in accordance with, section 411 of the Corporations Act, the Demerger Scheme, the terms of which are contained in and more particularly described in the Demerger Scheme Booklet (of which this Notice of Demerger Scheme Meeting forms part) is approved (with or without modification as approved by the Court).”

By Order of the Court



Stephanie Belton

Company Secretary

GrainCorp Limited

Thursday, 6 February 2020

EXPLANATORY NOTES AND VOTING INSTRUCTIONS**Chairperson of the Demerger Scheme Meeting**

The Court has directed that Mr Graham Bradley act as Chairperson of the meeting or, failing him, Mr Peter Richards.

Purpose of the Demerger Scheme Meeting and information about the Demerger Scheme

The purpose of the Demerger Scheme Meeting is to consider and, if thought fit, to pass the Demerger Scheme Resolution, which is set out above.

To enable you to make an informed decision on the Demerger Scheme Resolution, information about the Demerger Scheme is set out in the Demerger Scheme Booklet, of which this Notice of Demerger Scheme Meeting forms part. Capitalised terms used, but not otherwise defined, in this Notice of Demerger Scheme Meeting have the same meaning as set out in the Glossary in Section 8 of the Demerger Scheme Booklet.

These explanatory notes should be read in conjunction with the Demerger Scheme Booklet.

Each GrainCorp Director recommends that GrainCorp Shareholders vote in favour of Demerger Resolutions at the Demerger Scheme Meeting and the General Meeting, and intends to vote, or cause to be voted, all GrainCorp Shares held or Controlled by them in favour of the Demerger Resolutions.

Requisite Majorities required to pass the Demerger Scheme Resolution

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Demerger Scheme Resolution must be approved by:

- a majority in number of the GrainCorp Shareholders present and voting (either in person, by proxy or attorney or, in the case of a corporate holder, by duly appointed corporate representative) at the Demerger Scheme Meeting; and
- at least 75% of the votes cast on the Demerger Scheme Resolution.

Voting at the Demerger Scheme Meeting will be conducted by poll.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Demerger Scheme (with or without modification) must be approved by an order of the Court. If the Demerger Scheme Resolution put to this meeting is passed by the Requisite Majorities described above and the other conditions to the Demerger Scheme are satisfied (including the Capital Reduction Resolution being passed at the General Meeting), GrainCorp intends to apply to the Court for approval of the Demerger Scheme.

Entitlement to vote at the Demerger Scheme Meeting

The Court has ordered that, for the purposes of the Demerger Scheme Meeting, GrainCorp Shares will be taken to be held by the persons who are registered GrainCorp Shareholders as at 10:00am (Sydney time) on Saturday, 14 March 2020. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Demerger Scheme Meeting.

Voting procedure at the Demerger Scheme Meeting

Voting at the Demerger Scheme Meeting will be conducted by way of a poll. The results of the Demerger Scheme Meeting will be announced to the ASX as soon as practicable after the Demerger Scheme Meeting.

The Chairperson of the Demerger Scheme Meeting intends to vote all available proxies (as described below) in favour of the Demerger Scheme Resolution.

Voting at the Demerger Scheme Meeting

You may vote in person at the Demerger Scheme Meeting, or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote for on your behalf.

(a) Voting in person

To vote in person at the Demerger Scheme Meeting, you must attend the Demerger Scheme Meeting to be held at 10:00am (Sydney time) on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000. You will be admitted to the Demerger Scheme Meeting and given a voting card upon disclosure at the point of entry of your name and address.

(b) Voting by proxy

If you are eligible to vote and do not plan to attend the Demerger Scheme Meeting in person, GrainCorp encourages you to lodge a Demerger Scheme Meeting Proxy Form by following the instructions below. If you received a hard copy of this Demerger Scheme Booklet, your yellow personalised Demerger Scheme Meeting Proxy Form accompanies this Notice of Demerger Scheme Meeting.

Proxy appointment and lodging your Demerger Scheme Meeting Proxy Form

- (i) A GrainCorp Shareholder entitled to attend and vote at the Demerger Scheme Meeting may appoint a proxy to attend and vote for that GrainCorp Shareholder at the Demerger Scheme Meeting.
- (ii) If a GrainCorp Shareholder is entitled to two or more votes, they may appoint two proxies and each proxy must be appointed to represent a specified proportion of the GrainCorp Shareholder's voting rights. If you appoint two proxies and do not specify the proportion of the number of votes each proxy may exercise, each of the proxies may exercise half of your votes. If you wish to appoint a second

proxy, write on your yellow Demerger Scheme Meeting Proxy Form the names of both proxies and the proportion of votes allocated to each in accordance with the instructions on your yellow Demerger Scheme Meeting Proxy Form.

- (iii) A proxy can be an individual or a body corporate and need not be a GrainCorp Shareholder.
- (iv) If you appoint a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the Demerger Scheme Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the Demerger Scheme Meeting.
- (v) A corporate securityholder must sign the yellow Demerger Scheme Meeting Proxy Form in accordance with the instructions set out in the yellow Demerger Scheme Meeting Proxy Form. Where the yellow Demerger Scheme Meeting Proxy Form is signed by a duly authorised person or persons of a corporate securityholder, such authorisation must have been sighted by the GrainCorp Registry.
- (vi) For your proxy appointment to be effective:
 - (A) your completed Demerger Scheme Meeting Proxy Form; and
 - (B) any authority under which the appointment was signed or a certified copy of the authority (unless you have already provided a copy of the authority to GrainCorp),

must be received by **no later than 10:00am (Sydney time) on Saturday, 14 March 2020**. Given the last date for lodgement of proxy forms falls on a Saturday, please ensure that any proxy form which you intend to post or deliver is received by close of business on Friday, 13 March 2020. GrainCorp will accept proxies received by fax or lodged online before 10:00am (Sydney time) on Saturday, 14 March 2020.

- (vii) The proxy appointment and any authority described in paragraph (B) above must be lodged with the GrainCorp Registry:
 - (A) **Online:** by lodging a proxy online at linkmarketservices.com.au, by going to the voting page and following the prompts and instructions. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is shown on the proxy form;
 - (B) **Mail:** by mailing the enclosed yellow Demerger Scheme Meeting Proxy Form to the GrainCorp Registry addressed to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235 using the reply-paid envelope provided;
 - (C) **Deliver:** by hand delivering the enclosed yellow Demerger Scheme Meeting Proxy Form to the GrainCorp Registry at Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138; or
 - (D) **Fax:** by faxing the enclosed yellow Demerger Scheme Meeting Proxy Form to the GrainCorp Registry on (02) 9287 0309.

Chairperson of the Demerger Scheme Meeting as proxy

GrainCorp Shareholders who return their Demerger Scheme Meeting Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairperson of the Demerger Scheme Meeting as their proxy to vote at the Demerger Scheme Meeting on their behalf.

If a proxy form is returned but the nominated proxy does not attend the Demerger Scheme Meeting or chooses not to vote on a poll, the Chairperson of the Demerger Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions. The Chairperson of the Demerger Scheme Meeting intends to vote all available proxies in favour of the Demerger Scheme Resolution.

(c) Voting by attorney

A GrainCorp Shareholder entitled to attend and vote at the Demerger Scheme Meeting may appoint an attorney to vote at the Demerger Scheme Meeting. Powers of attorney must be received by the GrainCorp Registry by no later than **10:00am (Sydney time) on Saturday, 14 March 2020**. Persons who are attending as an attorney should bring the original or a certified copy of the power of attorney to the Demerger Scheme Meeting.

(d) Voting by corporate representative (in the case of a body corporate)

To vote at the Demerger Scheme Meeting, a corporation that is a GrainCorp Shareholder, or who has been appointed as a proxy by a GrainCorp Shareholder, may appoint a person to act as its representative. Persons who are attending the Demerger Scheme Meeting as a corporate representative for a corporation must bring evidence of their appointment. The appointment must comply with section 250D of the Corporations Act. An authorised corporate representative will be admitted to the Demerger Scheme Meeting and given a voting card upon providing, at the point of entry to the Demerger Scheme Meeting, written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

(e) Jointly held GrainCorp Shares

If GrainCorp Shares are jointly held, only one of the joint GrainCorp Shareholders is entitled to vote at the Demerger Scheme Meeting. If more than one joint GrainCorp Shareholder votes, only the vote of the GrainCorp Shareholder whose name appears first on the GrainCorp Register will be counted.

(f) Questions about voting at the Demerger Scheme Meeting

GrainCorp Shareholders should contact the GrainCorp Registry on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia), Monday to Friday, between 8:30am and 7:30pm (Sydney time) with any queries regarding the number of GrainCorp Shares held, how to vote at the Demerger Scheme Meeting, or how to vote by proxy.

ATTACHMENT F

Notice of General Meeting

GrainCorp Limited (ACN 057 186 035)

Notice is hereby given that a general meeting of the holders of ordinary shares in GrainCorp Limited (ACN 057 186 035) (**GrainCorp**) will be held at 10:30am (Sydney time) (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000.

Business of the General Meeting

Item 1: Capital Reduction Resolution

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*“That, subject to and conditional on the scheme of arrangement set out in Attachment C of the Demerger Scheme Booklet (of which the notice convening this General Meeting forms part) (**Demerger Scheme**) becoming Effective in accordance with section 411(10) of the Corporations Act and, for the purpose of section 256C(1) of the Corporations Act and for all other purposes, GrainCorp’s share capital be reduced on the Demerger Implementation Date by the Capital Reduction Amount (as defined in the Demerger Scheme), with the reduction to be effected and satisfied by applying the Capital Reduction Amount equally against each GrainCorp Share on issue as at the Demerger Scheme Record Date (rounded to the nearest Australian cent) and in accordance with the Demerger Scheme.”*

By Order of the GrainCorp Board



Stephanie Belton
Company Secretary
GrainCorp Limited
Thursday, 6 February 2020

EXPLANATORY NOTES AND VOTING INSTRUCTIONS

Purpose of the General Meeting

The purpose of the General Meeting is to consider and, if thought fit, to pass the Capital Reduction Resolution (which is set out above) as an ordinary resolution.

Item 1: Capital Reduction Resolution

The Capital Reduction Resolution is being put to GrainCorp Shareholders to obtain approval under section 256C of the Corporations Act for an equal capital reduction of GrainCorp’s share capital under section 256B of the Corporations Act.

The Capital Reduction is a return of capital on GrainCorp Shares which, under the Demerger Scheme, will be applied, together with the Demerger Dividend, as consideration for the transfer of UMG Shares to Demerger Participants (or in the case of Ineligible Foreign Holders and Selling Shareholders, to the Sale Agent) in accordance with the Demerger Scheme.

Under the Demerger Scheme, the Capital Reduction Amount will be calculated as follows:

$$\text{Capital Reduction Amount} = \text{GSCA} \times (\text{MMV} / (\text{MMV} + \text{GMV}))$$

where:

GSCA means the balance of GrainCorp's share capital account immediately before the Demerger Implementation Date;

MMV means the VWAP of UMG Shares for the first five Business Days starting from the date of the commencement of trading (whether on a normal or deferred settlement basis) of UMG Shares on the ASX, multiplied by the number of UMG Shares on issue immediately after implementation of the Demerger.; and

GMV means the VWAP of GrainCorp Shares for the first five Business Days starting from the date of the commencement of trading (whether on a normal or deferred settlement basis) of UMG Shares on the ASX, multiplied by the number of GrainCorp Shares on issue as at the Demerger Scheme Record Date.

The Capital Reduction Resolution is being proposed in connection with the Demerger Scheme and is consequently conditional on the Demerger Scheme becoming Effective. Accordingly, the Capital Reduction Resolution will not come into effect unless and until the Demerger Scheme becomes Effective in accordance with section 411(10) of the Corporations Act. Similarly, for the Demerger Scheme to become Effective, certain conditions need to be satisfied, including the approval of the Capital Reduction Resolution by the Requisite Majority of GrainCorp Shareholders.

The effect on GrainCorp and the GrainCorp Shareholders if the Capital Reduction Resolution is passed, together with all other information within the knowledge of the GrainCorp Directors that is material to the making of a decision by GrainCorp Shareholders whether to approve the Capital Reduction Resolution, is set out in the Demerger Scheme Booklet, of which this Notice of General Meeting forms part.

If the Capital Reduction Resolution is passed by the Requisite Majority, it will take effect provided the Demerger Scheme is approved by the Requisite Majorities of GrainCorp Shareholders and the Court and all other conditions to the Demerger Scheme becoming Effective are satisfied.

The GrainCorp Directors are of the view that, taking into account all relevant matters, the Demerger (which includes the Capital Reduction and the Demerger Scheme) is in the best interests of GrainCorp Shareholders and will not materially prejudice GrainCorp's ability to pay its creditors.

The GrainCorp Board recommends GrainCorp Shareholders vote in favour of the Capital Reduction Resolution in Item 1. Each GrainCorp Director intends to vote all GrainCorp Shares held or Controlled by them in favour of the Capital Reduction Resolution.

Requisite Majority required to pass the Capital Reduction

The Capital Reduction Resolution must be approved by at least 50% of the votes cast on the resolution by GrainCorp Shareholders, who are present and voting at the General Meeting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative.

Voting at the General Meeting will be conducted by poll.

Entitlement to vote at the General Meeting

For the purposes of the General Meeting, GrainCorp Shares will be taken to be held by the persons who are registered GrainCorp Shareholders as at 10:00am (Sydney time) on Saturday, 14 March 2020. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the General Meeting.

Voting procedure at the General Meeting

Voting at the General Meeting will be conducted by way of a poll. The results of the General Meeting will be announced to the ASX as soon as practicable after the General Meeting.

The Chairperson of the General Meeting intends to vote all available proxies in favour of the Capital Reduction Resolution.

Voting at the General Meeting

You may vote in person at the General Meeting, or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote for on your behalf.

(a) Voting in person

To vote in person at the General Meeting, you must attend the General Meeting to be held at 10:30am (Sydney time) (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020 at Hilton Hotel, 488 George Street, Sydney NSW 2000. You will be admitted to the General Meeting and given a voting card upon disclosure at the point of entry of your name and address.

(b) Voting by proxy

If you are eligible to vote and do not plan to attend General Meeting in person, GrainCorp encourages you to lodge a General Meeting Proxy Form by following the instructions below. If you received a hard copy of this Demerger Scheme Booklet, your green personalised General Meeting Proxy Form accompanies this Notice of General Meeting.

Proxy appointment and lodging your General Meeting Proxy Form

- (i) A GrainCorp Shareholder entitled to attend and vote may appoint a proxy to attend and vote for that GrainCorp Shareholder at the General Meeting.
- (ii) If a GrainCorp Shareholder is entitled to two or more votes, they may appoint two proxies and each proxy must be appointed to represent a specified proportion of the GrainCorp Shareholder's voting rights. If you appoint two proxies and do not specify the proportion of the number of votes each proxy may exercise, each of the proxies may exercise half of your votes. If you wish to appoint a second proxy, write on your green General Meeting Proxy Form the names of both proxies and the proportion of votes allocated to each in accordance with the instructions on your green General Meeting Proxy Form.
- (iii) A proxy can be an individual or a body corporate and need not be a GrainCorp Shareholder.
- (iv) If you appoint a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the General Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the General Meeting.
- (v) A corporate securityholder must sign the green General Meeting Proxy Form in accordance with the instructions set out in the green General Meeting Proxy Form. Where the green General Meeting Proxy Form is signed by a duly authorised person or persons of a corporate securityholder, such authorisation must have been sighted by the GrainCorp Registry.
- (vi) For your proxy appointment to be effective:
 - (A) your completed General Meeting Proxy Form; and
 - (B) any authority under which the appointment was signed or a certified copy of the authority (unless you have already provided a copy of the authority to GrainCorp),

must be received by **no later than 10:00am (Sydney time) on Saturday, 14 March 2020**. Given the last date for lodgement of proxy forms falls on a Saturday, please ensure that any proxy form which you intend to post or deliver is received by close of business on Friday, 13 March 2020. GrainCorp will accept proxies received by fax or lodged online before 10:00am (Sydney time) on Saturday, 14 March 2020.

- (vii) The proxy appointment and any authority described in paragraph (B) above must be lodged with the GrainCorp Registry:
- (A) **Online:** by lodging a proxy online at linkmarketservices.com.au, by going to the voting page and following the prompts and instructions. You will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) which is shown on the proxy form;
 - (B) **Mail:** by mailing the enclosed green General Meeting Proxy Form to the GrainCorp Registry addressed to GrainCorp Limited, c/- Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235 using the reply-paid envelope provided;
 - (C) **Deliver:** by hand delivering the enclosed green General Meeting Proxy Form to the GrainCorp Registry at Level 12, 680 George Street, Sydney NSW 2000 or 1A Homebush Bay Drive, Rhodes NSW 2138; or
 - (D) **Fax:** by faxing the enclosed green General Meeting Proxy Form to the GrainCorp Registry on (02) 9287 0309.

Chairperson of the General Meeting as proxy

GrainCorp Shareholders who return their General Meeting Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairperson of the General Meeting as their proxy to vote at the General Meeting on their behalf. If a proxy form is returned but the nominated proxy does not attend the General Meeting or chooses not to vote on a poll, the Chairperson of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions. The Chairperson of the General Meeting intends to vote all available proxies in favour of the Capital Reduction Resolution.

(c) Voting by attorney

A GrainCorp Shareholder entitled to attend and vote at the General Meeting may appoint an attorney to vote at the General Meeting. Powers of attorney must be received by the GrainCorp Registry by no later than 10:00am (Sydney time) on Saturday, 14 March 2020. Persons who are attending as an attorney should bring the original or a certified copy of the power of attorney to the General Meeting.

(d) Voting by corporate representative (in the case of a body corporate)

To vote at the General Meeting, a corporation that is a GrainCorp Shareholder, or who has been appointed as a proxy by a GrainCorp Shareholder, may appoint a person to act as its representative. Persons who are attending the General Meeting as a corporate representative for a corporation must bring evidence of their appointment. The appointment must comply with section 250D of the Corporations Act. An authorised corporate representative will be admitted to the General Meeting and given a voting card upon providing, at the point of entry to the General Meeting, written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

(e) Jointly held GrainCorp Shares

If GrainCorp Shares are jointly held, only one of the joint GrainCorp Shareholders is entitled to vote at the General Meeting. If more than one joint GrainCorp Shareholder votes, only the vote of the GrainCorp Shareholder whose name appears first on the GrainCorp Register will be counted.

(f) Questions about voting at the General Meeting

GrainCorp Shareholders should contact the GrainCorp Registry on 1300 883 034 (within Australia) or +61 1300 883 034 (outside Australia), Monday to Friday, between 8:30am and 7:30pm (Sydney time) with any queries regarding the number of GrainCorp Shares held, how to vote at the General Meeting, or how to vote by proxy.

ATTACHMENT G

Sample Demerger Scheme Meeting Proxy Form



GrainCorp Limited
ABN 60 057 186 035

LODGE YOUR PROXY FORM

	ONLINE www.linkmarketservices.com.au
	BY MAIL GrainCorp Limited C/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia
	BY FAX +61 2 9287 0309
	BY HAND Link Market Services Limited 1A Homebush Bay Drive, Rhodes NSW 2138; or Level 12, 680 George Street, Sydney NSW 2000
	ALL ENQUIRIES TO Telephone: 1300 883 034 Overseas: +61 1300 883 034



X999999999999

PROXY FORM – DEMERGER SCHEME MEETING

I/We being a member(s) of GrainCorp Limited (ABN 60 057 186 035) (**the Company**) and entitled to attend and vote hereby appoint:

APPOINT A PROXY

☐ **the Chairman of the Demerger Scheme Meeting (mark box)**

OR if you are **NOT** appointing the Chairman of the Demerger Scheme Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Demerger Scheme Meeting, as my/our proxy to act generally on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given, and to the extent permitted by the law, as the proxy sees fit) at the Demerger Scheme Meeting of the Company to be held at **10:00am (Sydney time) on Monday, 16 March 2020 at the Hilton Hotel, 488 George Street, Sydney NSW 2000 (the Demerger Scheme Meeting)** and at any postponement or adjournment of the Demerger Scheme Meeting.

The Chairman of the Demerger Scheme Meeting intends to vote all available proxies (including undirected proxies) in favour of the Demerger Scheme Resolution.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 10:00am (Sydney time) on Saturday, 14 March 2020. Given the last date for lodgement of proxy forms falls on a Saturday, please ensure that any proxy form which you intend to post or deliver is received by close of business on Friday, 13 March 2020. The Company will accept proxies received by fax or lodged online before 10:00am (Sydney time) on Saturday, 14 March 2020.

Please read the instructions overleaf before marking any boxes with an ☒

Resolutions

For Against Abstain*

1 Demerger Scheme Resolution

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

GNC PRX2002A

HOW TO COMPLETE THIS PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Demerger Scheme Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Demerger Scheme Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a securityholder of the Company.

DEFAULT TO CHAIRMAN OF THE DEMERGER SCHEME MEETING

Any directed proxies that are not voted on a poll at the Demerger Scheme Meeting will default to the Chairman of the Demerger Scheme Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Demerger Scheme Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Demerger Scheme Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Demerger Scheme Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Sydney time) on Saturday, 14 March 2020**. Any Proxy Form received after that time will not be valid for the scheduled Demerger Scheme Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your Proxy Form. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MOBILE DEVICE

Our voting website is designed specifically for lodging proxy forms online. You can now lodge your Proxy Form by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

GrainCorp Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138
or
Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE DEMERGER SCHEME MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

ATTACHMENT H

Sample General Meeting Proxy Form



GrainCorp Limited
ABN 60 057 186 035

LODGE YOUR PROXY FORM

	ONLINE www.linkmarketservices.com.au
	BY MAIL GrainCorp Limited C/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia
	BY FAX +61 2 9287 0309
	BY HAND Link Market Services Limited 1A Homebush Bay Drive, Rhodes NSW 2138; or Level 12, 680 George Street, Sydney NSW 2000
	ALL ENQUIRIES TO Telephone: 1300 883 034 Overseas: +61 1300 883 034



X99999999999

PROXY FORM – GENERAL MEETING

I/We being a member(s) of GrainCorp Limited (ABN 60 057 186 035) (the Company) and entitled to attend and vote hereby appoint:

APPOINT A PROXY

☐ the Chairman of the General Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the General Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the General Meeting, as my/our proxy to act generally on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given, and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:30am (Sydney time) (or as soon as practicable after that time following the conclusion of the Demerger Scheme Meeting) on Monday, 16 March 2020 at the Hilton Hotel, 488 George Street, Sydney NSW 2000 (the General Meeting)** and at any postponement or adjournment of the General Meeting.

The Chairman of the General Meeting intends to vote all available proxies (including undirected proxies) in favour of the Capital Reduction Resolution.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 10:00am (Sydney time) on Saturday, 14 March 2020. Given the last date for lodgement of proxy forms falls on a Saturday, please ensure that any proxy form which you intend to post or deliver is received by close of business on Friday, 13 March 2020. The Company will accept proxies received by fax or lodged online before 10:00am (Sydney time) on Saturday, 14 March 2020.

Please read the instructions overleaf before marking any boxes with an ☒

Resolutions

For Against Abstain*

1 Capital Reduction Resolution

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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STEP 2

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

STEP 3

GNC PRX2003A

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the General Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the General Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a securityholder of the Company.

DEFAULT TO CHAIRMAN OF THE GENERAL MEETING

Any directed proxies that are not voted on a poll at the General Meeting will default to the Chairman of the General Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the General Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

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To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

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CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the General Meeting the appropriate "Certificate of Appointment of Corporate Representative" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Sydney time) on Saturday, 14 March 2020**. Any Proxy Form received after that time will not be valid for the scheduled General Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

**ONLINE**

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Voting Form. Select 'Voting' and follow the prompts to lodge your Proxy Form. To use the online lodgement facility, shareholders will need their "Holder Identifier" - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

**BY MOBILE DEVICE**

Our voting website is designed specifically for lodging proxy forms online. You can now lodge your Proxy Form by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code

To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.

**BY MAIL**

GrainCorp Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

**BY FAX**

+61 2 9287 0309

**BY HAND**

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138
or
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680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

Level 28, 175 Liverpool Street
Sydney NSW 2000, Australia

graincorp.com.au



GrainCorp