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TRANSCRIPTION

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[START OF TRANSCRIPT]

Davina Gunn: Good morning Ladies and Gentlemen. Welcome to AWB's first half results for 2008. My name is Davina Gunn, Head of Investor Relations. I'd also like to take this opportunity to welcome those listening via the web-cast and on the teleconference.

Following the presentation, we will have an opportunity for you to ask questions, firstly from investors and analysts and secondly from the media. Those on the teleconference will also be given the opportunity to ask questions. For those in the room please turn your phones and blackberry's to quiet.

I'd like to introduce our presenters, Gordon Davis, Managing Director and our new Chief Financial Officer Philip Gentry, over to you Gordon.

Gordon Davis: Good morning and thank you for participating in our 2008 First Half Results Presentation. I notice the crowd is down on previous years and I'd take that as a good sign. I also note that normally we give this presentation a couple of days before something is about to happen. I remember in November 2006 it was the Cole report, May 2007 was the old Government's decision on wheat marketing and November of last year was about three days before the change of Government, the Federal Election. This year I think I can look forward over the next week to nothing particularly happening, which is quite a change.

I'll provide an overview of the results and the key issues we are managing and then I'll hand over to Philip Gentry to talk through the detail of the first half performance. I'll then come back and then comment on the overall strategy and outlook before we go to Q&A.

So I'll start with a brief overview of the key points of the first half result. I think I'd see this as a solid start to the year, the two key points of the first half that I'd like to draw out is that it's a solid start but it is work in



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progress. We have to continue our focus on improving the business and rebuilding the business and moving to that phase where we can confidently put most of our effort and time into generating sustainable growth.

The benefits of the rebuilding and diversification over the last few years are evident in the material and reflect well on the wisdom of doing that. While we're still exposed to the seasonal and cyclical forces of agri-business, there is diversity there, and so we're less exposed to the individual affects, in any particular geography.

EBITDA, the underlying measure of earnings performance, was up 53% and net profit after tax, before significant items, was also up 96% on the corresponding period. In the significant items we recorded a provision for any liability that might arise from the Standard Chartered Bank litigation, although we continue to vigorously appeal the preliminary decision handed down.

While the underlying earnings were up, before significant items, the Board has decided that given the inherent uncertainties in the environment that we operate in that we'd maintain our dividend at the \$0.04c interim fully franked level. We will underwrite the dividend to preserve cash flow and maximise our financial capacity over the next six months.

I will now turn to the divisional highlights. Management in AWB has a range of different dimensions, particularly in the journey we've been coming since 2006. We've been trying to rebuild market confidence through increased transparency, through dealing with issues of governance and through internal reforms, particularly in the areas of risk management and the like.

We're also navigating through a period of significant change in the external environment with the end of statutory marketing in wheat, quite changed credit market conditions and the need for the Company to pursue its journey of constitutional change.

It's a credit to the Board and the management team, they've remained focused over the period on the issues which are ours to control, determined to improve the performance in the face of these challenges and I think we're well positioned to leverage our franchisees in the different businesses and take advantage of business opportunities as they arise.

Looking at Landmark Rural Services, I mean this is really the engine room of the business, it's starting to realise its full potential under the leadership of Graeme Jacobs. Improved weather conditions in some way boosted performance with EBITDA going up 56% to \$32 million. But more pleasing is we've starting to get traction now from the strategic initiatives that Graeme and his team are putting in place to underpin and generate sustainable earnings growth.

There's obviously a way to go, Landmark is a big business more than 2,000 employees, 400 points of presence. So it doesn't turn around easily, but I'm



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confident that the business is back on track and that's reflected in the earnings.

The Landmark Financial Services business run by Colin Taylor has also performed strongly, with an 11% increase in EBITDA to \$12.8million for the half. We said at the full year results that it would be a challenging six months with the emerging conditions in credit markets, the team have managed that period with bringing the business through in reasonable shape.

At the same time though I think particularly pleasing is the credit quality in the loan books has been maintained and they've continued to broaden the earnings profile through product diversification such as the stock lease initiative we announced earlier in the week.

We've said in the material that we see a challenging funding environment going forward, which will impact on the performance of this business, but Colin and his team deserve credit for what they've achieved so far and I'm sure will continue to apply those same disciplines to the next six months, that we saw for the last six months.

Our Commodities business faces the biggest challenges within the Group, with changes to the end of statutory marketing and the single desk in Australia, unprecedented global price volatility and also continued focus on our start up investments in India and Brazil.

EBITDA was up 45% on the corresponding period to \$44 million for the division, but there were big shifts in the mix between Australian and overseas performance. We've commenced, as I said at the full year, we're undertaking a process of reviewing this business and in part I think reflecting the fact that it's developing a greater understanding of how it works, what parts leverage off other parts of the AWB business and developing a more compelling business model, more integrated business model for our grain trading and other activities in this area. In particular, working out as we move into an environment with the end of statutory marketing in Australia, how we can improve those links, now that we no longer will be constrained in our trading activities by our obligations to the national pool.

The other point I'd like to make in this context is that we are continuing to make progress on the legacy issues we're facing at the Group level. That means increasingly the management team is being able to focus on the core business and the business issues.

During the half we saw the class action launched by U.S. wheat growers dismissed in the U.S. and no appeal lodged. We also have continued to put in place, and worked through our program of increasing our risk management framework and I think there is an excellent slide I can commend to you in the appendix about our progress in that way.



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We've updated our Code of Conduct for employees and reissued that and are going through a process of engagement around that to further consolidate the cultural change across the organisation.

I think in this journey, I've sort of bravely said there, that I think we are now in terms of my time getting towards the point where we're leaving the past behind and about 50% of my time is now really focusing on the business going forward, rather than dealing with some of the issues we inherited at the time.

I'll now hand over to Philip Gentry to talk through the divisional numbers and corporate numbers in more depth and come back towards the end and talk about strategy and outlook. Thank you.

Philip Gentry:

Thank you Gordon and welcome everyone, it's good to see a number of familiar faces here again. I'd now like to talk about the financial and operating performance of the Group, the respective businesses, the financial priorities which we have for the period ahead. One of the other features of the result that I would like to draw to people's attention is the increased transparency that the Company is now putting out there.

The Company has received some criticism in the past around transparency; over the last 12 to 18 months we've had a deliberate intent to be much clearer and more transparent to the market. I think you'll see a lot more information in this reporting period around the respective businesses, their performance and particularly the balance sheet, assets, liabilities and the financial activities in the various businesses.

So turning to the group as a whole, here you can see that revenue was up quite strongly in the period, some 35%. This arose from a number of different areas, firstly the Company capitalised on the increasing agricultural activity, particularly through Landmark Rural Services and Landmark Financial Services. We saw improved business performance from most of the businesses and higher commodity prices were the other feature that drove the strong increase in revenue.

The Company declared an interim dividend of \$0.04c per share, fully franked and we've also fully underwritten the dividend reinvestment plan, with a 2.5% discount for shareholders.

Let's now look at the composition of this result by business. This slide sets out the EBITDA by business segment. Again you can see the benefits of diversification are evident in this result for the Company. Of particular note, you can see the strong improvement in Landmark Rural Services, the recovery in Australian commodity management and the softer performance in international commodity management. I'll turn to each of these in turn and go through them in more detail.

Let's start by looking at Landmark Rural Services and the composition of their performance. This was an excellent result we were very pleased with Landmark Rural Services first half performance. Favourably operating



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conditions certainly helped and the early rains in the eastern states was a key reason for this. It was pleasing to see all states delivering results above the prior corresponding period, and in addition earnings for all business units exceeded the prior corresponding period, with the exception of wool and livestock which were relatively flat. I'll talk more about each of those shortly.

We saw solid performances from our 50-50 JV's, with Hi-Fert and RD1 and improved margin management and targeted investment for growth were features of this result. Also of note is in the first half 2007 number, that includes the \$5.7 million fee paid by AWBI in relation to the pool activities. This was not part of the first half 2008 result. The fee for first half 2008 was paid in Australian Commodity Management, and I'll talk more about that when we get to it.

Let's look at this in a little bit more detail. Here you can see the gross profit by business segment in Landmark Rural Services. Merchandise on the left hand side was particularly strong, higher crop chemicals were a big percentage, a strong percentage of the merchandise component. Fertiliser sales were also strong driven by increased demand due to improved conditions and customers pre-purchasing imports ahead of expected price increases.

The lower volumes in livestock and wool were evident as farmers rebuild herds and a lag effect of de-stocking after two preceding years of drought. Real estate sales were up 19%, strong sales particularly in Victoria and Queensland were offset by slightly lower value of sales in Western Australia.

Let's now look at Landmark Financial Services. This is a solid performance and a more challenging environment for Landmark Financial Services. You can see lending and deposit margins were relatively flat and I'll talk about that more shortly. What was particularly pleasing was the lower provision charge and again I'll talk more about credit quality but the book is in very good shape. Insurance commissions were up 15% on volume growth, other income included fee on both deposit and lending products as well as wealth management products was up well. Overheads increased due to further investment in people and systems for growth.

Let's now look at the loan and deposit books in a bit more detail. Landmark Financial Services maintained margins well in quite a difficult environment. In the top left chart you can see the loan portfolio and the blue line represents the net interest margin.

Over the last three halves the portfolio has been relatively stable. March is typically a time when we see some seasonal reductions and there was also slower growth in some of the new business. The net interest margin, around 2% is flat on the prior corresponding period, but you can see from the blue line that it jumps up significantly in September and then down again in



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March. The story there is that back in March 07 we'd then established a commercial paper program, the issuance of that paper March through September improved the net interest margins significantly and then when credit markets tightened up in September it went back to bank funding and that benefit dropped away again. So even though it's flat on prior corresponding period, there is a fair bit of variation in the intervening period.

This third bullet it mentions the extension of the rural trust debt, this is the \$2.1 billion funding the loan book. We're pleased to say that that debt has now been formally extended it is no longer in negotiation. This only happened in the last 24 hours, I'm sorry the slide is not now current, so that \$2.1 billion has been extended out for various maturities to late 2010.

On the bottom left chart you can see the deposit book. That's a good story. The deposits there are up some 17% versus September, due to a better than expected harvest and an improved product offering in our deposit front. Margins are also up solidly over a number of halves as you can see.

The other point that I want to highlight is that with respect to the refinanced and extended debt in the rural trust that is at a higher cost of funds. We will be passing that on to customers over time, as the market allows. In the second half we expect the net interest margin contraction to be somewhere in the range of 20 to 40 basis points. Beyond that we expect to get that contraction to reduce further as more is passed on but that's our estimate for the second half.

Let's now turn to credit quality. We're very pleased with the performance of the portfolio. The top left slide you can see the net non-accrual loans of \$18.6 million now represent just 0.88% of gross loans. Down significantly from the first half 07. The loan portfolio continues to be well diversified and not unduly exposed to irrigated agriculture.

The loan to valuation ratio remains very low at 38% and while this is up slightly from 34% on the prior corresponding period, this ratio does move around a lot depending on utilisation and customer mix. Fundamentally it is still very conservative. The portfolio continues to be very well secured by rural property at 94%.

I'll now move on to talk about Harvest Finance. This business performed well, market share was up to 63%, slightly better than the first half 07, driven by the pool incentive contracts which increased product uptake. Operating expenses have been well controlled. As you can see from the top left chart, this business is completely seasonal. We expect this loan book to substantially reduce in the second half, as is usual and as we saw last year.

We are retaining the Harvest Finance vehicle, as AWB's primary pooling vehicle for 08/09. Many of the features that we have offered previously in Harvest Finance will be offered in this vehicle going forward. We believe it



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will be a highly competitive vehicle and a capital efficient vehicle for providing pooling products in the de-regulated environment post-July.

Moving on to the Australian Commodity Management business which saw a strong recovery, we're very pleased with this first half performance. The result was underpinned by particularly strong grain origination sales performance and a very good performance from the chartering and container businesses.

On the container side we sold some 400,000 tonnes of container grain and we believe that puts us as the market leader in this space from a standing start some nine months ago.

Risk assess recorded limit volume in the first half due to ongoing lower demand for risk products following the drought and we're repositioning that business in 2009. Essentially that will be moving to an advice based business and we won't be taking principle positions. That business is effectively being significantly de-risked.

Two other things to bear in mind on this result: in the first half 07, that number was reduced by a \$3.2 million loss in the custom feeding meat and livestock business which was subsequently closed. The first half 08 performance also benefited from the \$3.6 million fee paid by AWBI International, which of course wasn't in the first half 07. So that result if you like looks slightly better than the underlying performance, but fundamentally it is still a strong recovery.

Now turn to the Pool Management Services business. Again, a pleasing performance with some 4.35 million tonnes received into the pool, versus 3.2 million last year. This business received an out performance incentive of \$6.3 million, bear in mind that won't be repeated in the second half. Costs continue to be well managed and as I alluded to before we will be offering a competitive suite of grain pools for the 08/09 harvest, under the Australian Commodities banner.

Now turning to the supply chain business, this is principally our grain flow business with 22 storage and handling sites on the east coast of Australia as well as our 50% share in Melbourne Port Terminal. This business has not performed as well as we would have liked. It has clearly been affected by two years of reduced tonnages from drought. The first half 07, modest profit was mitigated by some reasonable stock carry over from the previous season. But frankly there was very little carry over for 08 and consequently the result was not what we would have liked.

Costs continue to be strongly focused on and we're continuing to integrate this business into our broader commodity management activities to improve performance. With prospects of an improved season ahead we expect a much improved performance with the benefit of some continued rain where it is needed.



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Now let me turn to the international commodities business. This business was impacted by a challenging operating environment and frankly the overall performance was disappointing. The result reflected sustained increases in commodity prices, high hedging costs, high working capital which did lead to lower volumes of transactions being undertaken and also some poor execution of hedging positions.

We've taken action to address that by improving capability in selected areas and also integrating the oversight and control of our overall commodity hedging and activity under a global management structure. In addition, Geneva was constrained by lower volume of freight and the entire industry in Brazil was impacted by much higher inland freight costs.

Like last year, over 70% of the revenues from this business continue to be derived from the structural and transactional business activity. We will be looking to optimise our business model, in the changed environment going forward. No doubt there will be a number of changes which we will look to do to ensure that we have an improved performance. I'd now like to turn to the impact of commodity prices and working capital. I've alluded to this several times. This chart sets out, over several halves, AWB's working capital, and wheat prices and soya bean prices. The red is the soya bean, the gold line is wheat. And effectively the working capital has largely mirrored the increase in commodity prices.

In fact, volumes and tonnages have been relatively stable globally, there has been some change in mix, but overall the increase in working capital has fundamentally been commodity price driven.

The recent reductions in wheat prices will see some benefit flowing through in the second half. Let's now look at how that flows through by division.

Here you can see the working capital changes across each of the divisions, excluding Harvest Finance. We deliberately left that out as it's in a ring-fenced limited recourse structure. And again, as you'd expect, the commodity prices have driven the increases in working capital almost entirely in the two main commodity businesses.

The Australian Commodity Management increase is also net of the \$96 million reduction in working capital for risk assist. You may recall, at the full year, we discussed the possibility of reducing the working capital demand and risk assist as we changed the structure of that business and that has been evident in this result.

I'd now like to turn to what the impact of that has been on cashflow and talk you through the implications there.

This is a very summarised slide and please remember there are three very different businesses that flow through the cashflow. We've got a financial services business, we've got a rural retailing business and we've got a commodities business and there's a lot of ins and outs in this cashflow. But, when you boil it all down, fundamentally this is a working capital story driven by increased commodity prices.



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And the investing activities, these are relatively small and relate to the sale of some of AWB's Chicago Mercantile Exchange shares and also the Kansas City membership which are effectively non-core and just release some capital.

The financing activities largely relate to the funding of those increased working capital positions and we expect this working capital will reduce and the cashflow from operating activities to increase significantly in the second half as this position significantly reverses.

Now let me just discuss the funding structure of the group and try and give a little more clarity there.

In essence, AWB has separate funding structures for specific business activities. And what I'd like to do is start on the lower half of this slide. There you can see the Harvest Finance net debt increasing by \$576 million, this is the seasonal increase I've alluded to earlier. You also see the Landmark Financial Services Rural Trustline portfolio, relatively stable. That is the debt that we've just extended out to 2010. The Harvest Finance debt, as I mentioned before we expect to reduce significantly over the second half.

Both of those funding structures are in limited recourse facility structures. Effectively from AWB's perspective, limited to the equity contribution that we've made to them.

And in the top half of this slide, that is the core working capital for the commodities and rural services business. During the half, we reduced the limit on our syndicated loan facility from \$750 million to \$400 million and replaced it with two new facilities. Some inventory financing facilities and a receivables financing facility for Landmark Rural Services. This was done to reduce the cost of debt for the group.

Now let me summarise the overall financing position.

What we are looking at is seasonal debt reductions by 30th September in both Harvest Finance and the Australian and international commodities businesses. I've discussed the extension of the Rural Trust debt out to 2010. We've got a variety of strong banking relationships and in particular, one thing we've noticed over the last six to 12 months is the increasing desire of financiers and willingness to fund commodities and inventory which is self-liquidating, short-term, hard assets.

Then you can see the significant liquid assets that we have as at 31st of March. Cash and cash equivalents of some \$133 million and commodity inventory which is not financed, not pledged, readily realisable of some \$320 million.

Now let me talk about returns.

This slide looks at the underlying ROE, three significant items. And you can see there's been some variation over recent years. And while we've got some



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improvement at the half, these returns are still below our target, primarily due to seasonal conditions and the under-performance of the offshore business.

The Landmark Rural Services, financial services and the Australian commodities management business were all in reasonably healthy double digit returns. We're doing a number of things to improve our capital allocation and business practices. The initial phase of the revised, economic capital allocation methodology has been adopted during the period. We are seeking more rigour and discipline around our approach to both strategic and financial discipline.

We're implementing the Argenti Strategic Planning system, as we speak and increasingly assessing ROE at more granular levels by segment business unit, project and in-time transaction. We've made good progress and you can see the diversification resilience of the business in the face of drought, volatile commodity prices and tighter financial markets is evident. There's clearly still work to be done and I'd like to now touch on some of the key financial priorities as I see them.

Now I've only been in the chair a short time, but I'm very comfortable with these priorities what they need to be for the company at this stage of its development.

Firstly. Improving the overall returns on capital to get them where they need to be and we've set an aspirational target of 15% over the medium term. Implementation and expansion of the economic capital allocation in the Argenti system. We want to continue our strategy of diversifying our funding sources and extending debt maturities, where appropriate.

And bear in mind much of the debt that supports the commodities business is always going to be short-term, 30 to 90 day transactional commodity based. We wouldn't want it to actually be long-term debt and will always be relatively short term.

And then, finally, ongoing review of the businesses in the context of the changing environment and ensuring we get required returns on the funds employed. We're actively managing the changing market environment and the associated opportunities and challenges in adapting our business model for the future.

Let me now, hand you back to Gordon to talk about the future, our strategy for the group and the outlook.

Gordon Davis:

Thank you, Philip. It's a pleasure for Philip to have the opportunity to build on the work he did as Head of Strategy in the CFO's role and it's also a pleasure we announce internally that John Russell has joined AWB as Head of Strategy to replace Philip in that role and progress our business reviews. As you'd understand there's a lot going on, both in the business and in the industry.



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From my perspective, as I mentioned, as we move through the process of improving the performance of the company, we've really been able to more prominently in discussions with the management team and with the board, focus on those things which are going to allow us to grow shareholder value. And it's a reflection of the journey we've been on.

Clearly we still have work to do in building market confidence. We have still got to deal with legacy issues, we still have got to make progress in our governance and reputation agenda and we've still got to make progress on risk management. But we are emerging from the phase we were in where there was increasing focus on the operational performance.

In terms of the strategic priorities for each business: they've largely remained the same as we talked about at the full year. There's more detail in each of these in the appendices and in the interests of time, I'll only give a brief précis. But, essentially, in Rural Services it's about increasing its operational performance. They're investing in growth, they're investing in branding. They've got seven strategic projects we're investing in customer facing IT systems, so it's about business improvement, operational improvement.

Financial Services remains leveraging the customer base. A hundred thousand Landmark customers, about eight thousand financial services customers is a sub-set of that, I think about 11 to 12,000 insurance customers. So continuing to leverage the Landmark customer base and to continue to do product range extension. For instance the stock lease product we announced last Thursday.

The commodity business, our core commodity business in Australia, the challenge there as we move from statutory marketing is to leverage that, our capacity in origination, leverage our capacity in execution and leverage the customer relationships which we've built up, domestically, over many years. And take advantage of the fact that we won't be as constrained about the range of activities we can conduct there once we're no longer managing the national pool.

The international business has fulfilled an excellent role for us in helping diversify incomes while we've been managing the pool and while we've been unable to do some other activities domestically. So we'll continue to look at appropriate geographic diversification, we will continue to try and build the component of that revenue in that business which comes from back to back transactions and from what we call light assets, which tend to be first stage storage assets in different geographies.

And probably the third point there, we've made significant progress and need to continue to make progress on integrating those businesses into one global commodity business.

Of course in the outside world, probably the issue which is most prominent is the end of statutory marketing of wheat and the legislation which is before



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the Parliament or which is expected to be introduced to the Parliament in the next short while.

We see considerable opportunities arising from this. As we have said, consistently that the issue of government policy on wheat marketing is an issue for the Government and wheat growers. However we felt that we've been able to contribute to that debate in terms of the content of that legislation and also how it is to be implemented.

We've been particularly concerned to ensure an orderly transition from the current statutory system and have made representations around issues such as grower protection, around industry goods, services and around fair access to supply chain assets. Remembering that the industry structure is not the product of years of commercial evolution, the industry structure is the product of a series of decisions by Government, to exit activities in the Eighties and Nineties, be it marketing in our case, or infrastructure in the case of the bulk handlers.

We'll continue to fulfil all our current obligations to pool participants. We are running the last two pools as trust structures so the interests and equity of growers is protected by that structure. And we'll continue to discharge our obligations until we've made the final distributions from those pools and wound up that activity within the business.

The legislative change in wheat marketing does bring around the issue of AWB constitutional reform, reflecting the fact that AWB was essentially established initially to discharge a statutory function of managing the pool.

We will seek shareholder approval for constitutional reform when wheat marketing arrangements change. You will recall we put resolutions to our AGM in February and we were heartened by an 88% vote of all shareholders to reform the constitution and a 62% vote by growers to reform the constitution. So a clear majority amongst both groups of shareholders. However, not at the 75% threshold level we need for the grower members who have a voting right.

The board has re-affirmed their determination to go back to shareholders and seek their support again for governance reform when wheat marketing legislation changes. We believe reform will benefit all shareholders of both classes, wheat growers and customers as we become a more vibrant, competitive, commercial enterprise.

I strongly believe the best outcome for growers as we move from statutory marketing is to have a commercially, sharp and adept, flexible AWB out there actively competing for grain with all the other players, both domestic and international.

The constitution is a complex document and it requires a two-step process to fully reform the company. So we've scheduled a meeting on the 21st of August for the first step and if that's successful, then there's a subsequent meeting to implement a standard commercial constitution.



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We're confident that the shareholders will support the reform proposals after the new legislation is in place and we've had another opportunity to explain to both groups of people who have interest in the company the benefits of that.

So, in summary, before we go to questions, I suppose the key points from today – the business has delivered a solid result that demonstrates a resilience and also, from my point of view, demonstrates the management team focusing on the right priorities to grow shareholder returns. And that's clearly something the company has had a disappointing performance on in recent years.

Secondly, we're actively managing the challenges facing the business in the external environment and adapting our business models to leverage opportunities we see arising, in particular around the changed regulatory regime.

And, thirdly, we're committed to securing shareholder support for constitutional and governance reform to enable us to be successful in the new environment.

I believe that AWB remains well paced to leverage its current footprint, its current competencies and expertise to generating sustainable growth in Australian agri-business and international agri-business. That was the reason I joined the company in the first place and I'm pleased about the progress we've made in 18 months, but, as I said, it's a journey and we've still got along way to go.

Thank you and we'll now take questions through the good offices of Davina. Thanks.

Question: (Kristan Walker, Deutsche Bank) Just got a couple of questions if I can personally ask one on Landmark. Obviously a pretty decent rebound in the margins that we're seeing there round 3.9% the EBITDA margins. Is there anything structurally that you can see in this business why it couldn't actually get back to the sort of EBITDA margins that we've seen back in sort of 2005 or 4.8%? Obviously you're doing quite a lot on the cost front and trying to grow that business.

Gordon Davis: I think in the appendix material you'll see there's a range of strategic initiatives the business is pursuing. Things around, we spoke in the detail about more disciplined margin management through what we call price book process of ensuring that there's more consistency in pricing. Graeme Jacobs and his team are putting a lot of work into improvements in procurement. So I'm clearly not going to be specific about any target numbers. But there is improvement in that dimension and I'm confident that the right investment in systems, in people will you know build a stronger business over time.

Question: (Kristan Walker, Deutsche Bank) The final question is on the cost of debt. You talked about the [unclear] line facility being obviously reduced and



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replaced by a working capital facility. Any comment as to what that margin impact will be for the cost of farmers?

Gordon Davis: Sorry, you're talking about the Rural Trust or?

Philip Gentry: No, no, inventory financing.

Gordon Davis: Well essentially that improved our cost of funds when we did it and at this stage those facilities remain in place and when we re-negotiate those, at some point in the next six months, there may be some further impact. But I expect it will be modest.

Question: (Grant Saligari, CommSec) I just wonder whether you could first of all comment on the adequacy of the balance sheet to support a substantial position in grain marketing out of Australia, as we move into a new regime where cash acquisition is going to be a much more substantial part of the landscape. And perhaps, also, in doing that you could touch on the sort of leverage ratios you might have in mind in terms of debt to equity within your trading businesses, so we can get a bit of a feel for the capital needs of the business?

Gordon Davis: I'll talk in general terms about the first bit and then might have to think about the second bit. Clearly, with the end of statutory marketing and compulsory pooling, there will be a growth in cash acquisition, cash origination. I think there's considerable uncertainty as to what extent that will be. The Australian growers have seen some benefits in what pooling provides. I think pooling provides for them – traditionally it's provided a financing option, which we do through Harvest Finance. It's also provided an averaging process for them, in the sense that they get a net pool return based on a sales profile over the period of that pool and that could remain attractive to some growers. So, yes, there'll obviously be more trade done for cash.

But I think the point also is when you look at other markets, the intermediaries are unlikely to aggregate the crop at harvest for cash because the risk profile then goes to their balance sheet for what they can't sell over some time. So there is uncertainty around that. That's why I've said going forward that in the new environment it's not a question of market share, it's a question of how you run your book and pooling is a technique for origination into that book.

In terms of the capital requirement, I think we said in February at an Investor Forum, just looking at where commodity prices had moved and, at the time the volatility we were seeing – albeit we've seen a considerable reduction in volatility since. But a rule of thumb at the time was if you wanted to export a million tonnes of wheat from Australia, you probably needed somewhere around \$150 million of working capital applied against that task, simply because at the time wheat was about \$400 a tonne. If you're doing a million tonnes, you might get three to four stock turns a year over that.



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So at any point in time, you might have – I'm making this up as I go - 250,000 tonnes of wheat sitting there at \$400 a tonne, so there's \$100 million, and then whatever else you needed on top for the margining to protect the hedge position. So they're big numbers and I think you're seeing that. But the industry is sort of working that through in their own numbers and, I think particularly the domestic players, have all stated their intention to continue offering pools and there may be a link there.

In terms of our appetite in that space, I think Phil already made a general comment because it's no different to the overseas part; we will operate at a level where we feel that it's prudent, in terms of the balance sheet, in terms of the facilities we'd need to support it and then that will vary from time to time. This is a key element, of course, of why we're very interested in getting the constitution reform; essentially while we have that separation of ownership and control, we don't have the same flexibility on the equity side that other players might have. So I think there's another part of it to the answer as well.

Phil Gentry: Perhaps just to expand on that. As I mentioned in my presentation, we certainly see a reasonable demand in interest from financiers for commodity related financing, particularly where it's short term, self liquidating, they've got their hands on the assets. In inventory financing, it's relatively common to have a 5:1 ratio. From a pooling standpoint, you can do better than that and we would expect Harvest Finance and some of the structures we'll be offering to be better than that. But I don't want to be too specific – we're still finalising those structures. Does that give you some feel?

Question: (Grant Saligari, CommSec) It gives me some feel. I guess the conclusions seems to be, though, that the DRP underwriting that you're doing is probably not going to be enough – well, won't be enough – to sustain a substantial position in grain marketing.

Gordon Davis: Well, I think you might – when I was commenting, with statutory marketing going in Australia, there's no real distinction between the international business and the domestic business, so we've always got the option, given the nature of the capital in which to employ in those businesses, which tends to be short term and self liquidating. We've always got the option of moving capital between the offshore back into Australia if that's a more attractive opportunity. So there are options other than equity.

Phil Gentry: I think the other point I would make is that we're not aspiring to necessarily have the largest market share of wheat going out of Australia but we're certainly aspiring to have profitable activity.

Question: (Grant Saligari, CommSec) Just if I might have one final question then let someone else have a go. The GrainFlow silos. I guess they don't get a lot of mention, obviously, in the presentation, the strategy. What's the attachment, I guess, the future strategic position of that position in the supply chain network.



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Gordon Davis: Well, I think GrainFlow is quite a good question. In a statutory marketing environment we've always struggled to get an adequate return out of those assets because essentially we can't price discriminate in any way for the pool – the pool just pays the same amount for storage. In a deregulated market, of course, you can; you can price the service of those assets in whichever way you choose. The other element, I think that needs to be considered in the future GrainFlow story is just the change in the rail freight sites. The GrainFlow sites were by and large built on mainline rail, they're high throughput sites; they're relatively low capital sites in contrast to some of the other networks which exist. So, again, there's a couple of dynamics there which we are working through but, as any contraction in branch line activity on rail prima facie is to the benefit of GrainFlow.

The main issue affecting GrainFlow, of course, is that the main driver of profitability is rain and we've seen the full impact this year of two years' drought. Last year in the GrainFlow numbers we did have some carry over of storage from the year before. This year, essentially, there's been no carry over. That said, the site in Queensland, Jondaryan, has got the biggest receipt of sorghum ever. In fact, we put down another pad there to increase its capacity by about 35,000 tonnes which, again, illustrates the inherent flexibility of those sites. That was able to be done very quickly and so that particular part of GrainFlow is brimful.

Question: (Grant Saligari, CommSec) Any further thoughts on the crop forecast; 26 million tonnes of wheat?

Gordon Davis: I think looking at planting intentions, there was an article came out yesterday. In terms of areas, looking at the grains complex - wheat, barley, canola – the planting intentions is that the numbers are up 13%, 15%. The seasonal – most forecasters are on the neutral line on the seasonal outlook. When I started with – what I didn't realise when I started with AWB was pretty well it was going to stop raining the day I started and it hasn't started since. So I think we're wisely being a little bit – having had two years experience of reasonable starts to the season and then pretty well, you know, very disappointing later winter and spring rains, I think everyone's a bit cautious.

That said, from the grower's point of view, the planting intention shows that they full well appreciate the equation of near record prices. So there's a lot of activity and from our point of view, that reflects on our inputs business through rural services.

Question: (Francis Tan, State One Stockbroking) Another major part of – I guess, I don't know how major it is – part of your supply chain, the 50% of Melbourne port terminal. You wrote last year in the annual report that the [holding] disappointing because of the Philip Bay dredging issues. Now that the dredging is going ahead, is there a plan to upgrade that port and how much of capex would that be?



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Gordon Davis: Well, the performance that MPT, it's a volume job and the volume hasn't been there on the grains where we'd like it to be. That said, the other point of your comment is correct – the Port of Melbourne is dredging the channels into the harbour such that, over time, larger vessels, Panamax size, will be able to be fully loaded at those facilities. That's not a capex issue for us – the port does that but obviously we see that through the throughput charges. I'm not exactly what the timing is; I think the channel work is being done at the moment but when they get around to doing the berths, I haven't got any insight.

Question: (Stuart Jackson, JP Morgan) Can we just talk about the debt covenants that you've temporarily breached. Obviously, due to the actual provisions come through – can you give us an indication of what debt covenant was actually breached with the syndicated line, what those covenants in place are at this point in time and how they're actually measured and if there are any others that are sort of borderline at this point in time as well.

Phil Gentry: Yeah, I'll talk to that. The specific covenant we breached was a total debt to EBITDA covenant and the way it is constructed, it's in relation to the syndicated line and there is a particular borrowing group, in definition of what that total debt is – which I won't go into now, it's slightly complicated. The EBITDA's after everything, so it's including all significant items, and it's a rolling 12 month EBITDA. So it includes not only the significant items from this half, the \$26 million on Standard Chartered, but also the significant items from our full year where we made a number of provisions.

So, when you combine it all together, there was quite a lot of significant items that are included in that and, obviously, affected the number. So it's a 12 month rolling EBITDA to the last three months average debt, basically – that's the covenant. It's measured quarterly and we forecast to be comfortably back within that covenant by June.

In relation to the other covenants, we are comfortably within those.

Question: (Stuart Jackson, JP Morgan) [inaudible]

Phil Gentry: It obviously excludes Harvest Finance, it excludes the Rural Trust. It's a core number. There are some other ins and outs but, yeah.

Question: (Stuart Jackson, JP Morgan) You're sitting on a BBB- credit rating at the moment with Credit Watch. What are the implications if you get downgraded to junk status?

Phil Gentry: The implications are obviously a higher cost of funding.

Question: (Stuart Jackson, JP Morgan) Is there any covenant about that at this point in time or did you have to renegotiate?

Phil Gentry: I don't believe so.

Question: (Stuart Jackson, JP Morgan) Looking at the domestic trading business, it's obviously where you pick up part of that for \$3.6 million of AWBI fees that



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have come through. Can you give us an indication, though, what containerisation – I don't want the exact number, obviously – but containerisation of the new business within this stream of income, what's that contributed to that as opposed to a turnaround in the actual unit profitability of the domestic trading business itself and chartering?

Gordon Davis: Look, not in detail, but the containerisation of that came around in that space with the ability from last June to export bulk, export container wheat in particular. But it's not just wheat; we've also been growing our pulse business. I think you've got to really appreciate the nature of a trading business is there's a physical flow and then there's a book that works around that physical flow. So it's often hard to, you know, we don't break down the split between how that margin's generated and we don't break it down, traditionally, in that business by product. We haven't – there hasn't been any real demand for that in the past, so we don't usually disclose that.

Question: (Stuart Jackson, JP Morgan) With regard to the risk assist, you got back \$96 million and \$170 million of margin calls. When are you looking to get the residual back or is it coming back?

Gordon Davis: Look, we made a provision at the full year for credit exposure in that portfolio and, you know, we're obviously comfortable with that provision otherwise we would have done something different at the half. So, you know, we're working through a process with people who have got those positions. Clearly, the more positive the outlook for growers in terms of secured area and cropping then the quicker that'll happen. So I think, with the current pricing and a neutral seasonal outlook, we'd be pretty comfortable we'll continue to see improvement as we move through the second half.

Question: (Stuart Jackson, JP Morgan) The other thing you mention is also you're looking to rationalise a number of channels from seven to three in the Rural Services business. Obviously, at the moment you've got a fair bit of volume coming through on the wholesale basis as well as your franchisees – there's a whole bunch of them. How do you actually go about rationalising that without affecting the base load volume through that business and the fixed cost leverage within it?

Gordon Davis: Slowly is the answer because a lot of the complexity comes around from – you know, a franchise arrangement in West Australia may not look like a franchise arrangement in New South Wales. That's reflects the history of Landmark. I mean, Landmark was an amalgamation of, in most recent history, Dalgety's and IAMA, and IAMA in itself was an amalgamation of a series of different rural entities. So you do have a legacy of a range of different commercial arrangements in different states.

So Graeme and the team have had a project called Model to Market and have an objective of rationalising that down to three models with some consistency between them; some consistency in commercial terms, some



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consistency in expectations on the different parties. But that takes time when we're running an existing business with an existing set of relationships. But I think, you know, we're determined to do that – it's the right thing to do. It'll simplify the operation of the business.

Question: (Stuart Jackson, JP Morgan) So that's the standardisation down to a wholly owned franchise store and then a wholesale?

Gordon Davis: Pretty well, and that's really – a lot of the variation hasn't been around the terms. I mean, there's only a limited number of broad commercial arrangements you can have – company owned, wholesale or franchised – but it's been the detail within that which has been the issue.

Question: (Stephen Scott, Linwar Securities) Just on page 24, the \$320 in inventory, do you hold price risk on that? What is that, in terms of what sort of commodities will it be and do you own it or does someone else own it?

Phil Gentry: We own it. Some of it will be hedged. Some of it will be earmarked for potential customers. But it's effectively unpledged, unfinanced and available to be liquidated if we wished.

Question: (Stephen Scott, Linwar Securities) So it's not a principal position, as such? It's not matched off?

Phil Gentry: No, it's sitting in silos, yeah.

Question: (Stephen Scott, Linwar Securities) Right. Just secondly, there was an old restructuring provision sitting in the balance sheet, I think, from last year. Did you use any of that this period or what happened to that during this result?

Gordon Davis: Sorry, what was that provision?

Question: (Stephen Scott, Linwar Securities) There's an old restructuring position sitting in the balance sheet and I just wondering what the fate of that was?

Gordon Davis: Yeah, we made a provision last year for restructuring out of pool management. That's a process which is moving along. I haven't got the exact numbers but, broadly, at its peak there were probably 120 people in that area. I think when I last checked about 65 had gone. The remainder either had exit dates or were transferring over into our Australian commodity business. So we've been actively managing a project to make sure we wind out the costs at the same rate as we wind out the income from pool management. That was the purpose of that restructure provision. We obviously tested the adequacy of that at the half.

Question: (Peter Hemphill, The Weekly Times) G'day, Gordon and Philip. Listen, just a question in relation to the deregulation of the wheat market. Whereas in the past you've had to take all the wheat, will there be a lower ability to borrow and, hence, you'll be taking less wheat as what you had in the past and, hence, probably cherry pick the market?



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Gordon Davis: I think in terms of capacity to borrow, it's as Philip explained. We have a vehicle there in Harvest Finance. It's been a capital efficient vehicle for us in the past and at this stage our thinking would be it would probably be the appropriate and competitive vehicle to use in the future in that space and, basically, in its current structure. So we've never had any issues. I mean, the nature of that borrowing is against the security of the wheat in the pool, so I don't think that, in itself, would be an issue.

The other questions, I think, is about the difference between statutory marketing and a commercial environment. One of the issues in statutory marketing, when you've got compulsion for people to deliver is that, in return, you have to take the wheat that they offer. So the current obligation from the national pool is to receive into that pool all product which meets its receival standards.

Going forward, that won't be the case. That is an obligation in the Wheat Marketing Act and in the draft Act there is no similar obligation. So I would imagine that people would receive into their pools, they will originate product for which they have markets either domestically or overseas.

Question: (Peter Hemphill, The Weekly Times) All right, and if I may follow on there with a different question. You say that you've got a competitive suite of grain pools that you'll be offering. Have these been developed yet? Are they ready to go?

Gordon Davis: Well, one of the benefits that AWB has in this space is that we've been operating the national pool for some decades and so purely inherent in the business of the systems to run pools. I mean, under the statutory system, the national pool from wheat for exports provided the basis for calculating the EPRs that attract the product, it's generated systems of grower payments, it provided differential payments through golden rewards. To a greater or lesser extent, other people would offer slight variations of financing and so on around the pool but, ultimately, the wheat would end up in the national pool for export. So we feel that the national pool's been doing the heavy lifting in actually running the system for many years and we're in the position where we want to continue to leverage both the intellectual property and the expertise to do that. So, you know, we're confident that we can produce pool products which have integrity, in terms of their payment profile, in terms of the security of payments and in terms of their competitiveness.

Question: (Peter Hemphill, The Weekly Times) But my question is, have you already developed these and are they ready to go?

Gordon Davis: Well, I think we've had – yeah, clearly, the fact that statutory marketing would end has been well flagged and we've been using that time to best advantage to be ready for the new system.

Question: (Peter Hemphill, The Weekly Times) Right.



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Gordon Davis: We'll be obviously in a competitive environment. You know, we've obviously got a very strong incentive in keeping close to our suppliers, the growers, and we'll be communicating – once the legislation is settled and once the legislative framework is clear – very clearly to the potential suppliers to us, in the deregulated system, exactly what the characteristics of those products are, Peter. So I'd expect to see a fair bit of activity post 1 July.

Question: (Andrew Wackett, Macquarie) Thanks for that. Could you just maybe talk us through the corporate items line in your segment result? Like it was -7 million of corporate costs last year and it's 1.5 million this year. Can you maybe just run us through where you see that finishing for this year and what items impacted that this half, please?

Phil Gentry: Sure, I'm just doing a page turn, Andrew. Are you talking about slide 9?

Question: (Andrew Wackett, Macquarie) The segment note in the 4E or page 16 on your MD&A – the finance review, the segment report.

Phil Gentry: Okay, yeah. One of the main corporate items that does move around is foreign currency translation. That will be the main item that's driving the pluses and minus there. I'd have to come back to you with the specifics but that would be the primary driver.

Question: (Andrew Wackett, Macquarie) Okay, thanks.

Question: (Ray Brindal, Dow Jones) Hello, gents. I was just wondering about what the size of the deliveries into the 2007 pool – I think you mentioned 4.35 million tonnes earlier. I'm just wondering what that says about AWB's recognition amongst growers and just how large a market share you'll have for the 2008 crop?

Gordon Davis: Thanks, Ray. I think you've got to realise, recognise that under statutory marketing, the size of the pool was simply – in the years gone past – the size of the export pool was simply the difference between domestic production and domestic demand by definition. The export was an export surplus, so that was the market structure. So there was a pool, which would have essentially an export parity price, and then there was a domestic market, which would essentially operate at import parity.

That's been recently changed, so the size of the exportable surplus in the pool is the same equation just there's a couple of extra factors. It's domestic production less domestic demand, less exports in containers and bags which are deregulated and less any exports under permit under the regime the previous Government introduced. So the 4.3 million tonne pool this year just reflected that equation. It reflected a production of about, I think, 12.1 million tonnes, domestic use of maybe 6, probably 1.2 million in bags and containers and permitting for the rest. So in a statutory situation, it's an arithmetic equation that produces the size of the pool.



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Question: (Ray Brindal, Dow Jones) Okay, thanks for that. Do you have a vast amount of money available to operate in the cash market, in the deregulated market?

Gordon Davis: Well, I think it comes back to an earlier point; it depends on the company's appetite in the space. We've been operating – one of the benefits I think we bring is with the few years of experience we've had in operating our international business that is essentially the business model which will be current in the Australian context going forward. So I think we probably understand what those cash needs are and how we might finance them as well as anyone. But I think it gets back to Philip's point, that we are very focused on risk adjusted rates of return and, ultimately, we will only be investing the shareholders' money and equity in those products if we feel that balance if there.

Question: (Ray Brindal, Dow Jones) How hungry are you, then? Do you see yourself as the dominant Australian wheat exporter or just another player?

Gordon Davis: I think we've got a number of advantages we bring to the table. We've got the benefit of the experience in pooling. We've also got in that 60 years of brand equity with growers – I think growers, quite rightly, are very concerned that they need to deal with people where they have a real security of payment. So I think we've got a number of strengths. We've got an unrivalled network of grain marketers and also, of course, the Landmark network in terms of origination.

So there's a range of – when you look at the supply chain, you can participate in a range of different places; you can participate at the origination level and basically sell FOB, or you can integrate right through to the overseas customer. I think, depending on opportunities and markets, we'll operate in different space.

So it's just quite a different structure, really, throwing your mind forward from a statutory market to a competitive environment. A whole range of things changes beyond the existence of pools.

Question: (Ray Brindal, Dow Jones) Have you got a reasonable idea of how things are going to unfold or are you really flying blind?

Gordon Davis: I think because of our experience in the international business over the past four years, we've probably got as good a view about how things will unfold as anyone else – other than perhaps the global international companies, of course, who have been operating in that environment for many, many years.

Question: (Ray Brindal, Dow Jones) How do you see the market actually operating, then, for the next harvest?

Gordon Davis: I think there'll be a range of offers there. I think, normally when you look at what happens in deregulated markets – and there are other agricultural products sold in Australia without statutory marketing so we don't have to



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look too far for parallels. You get far innovation, far more diverse market behaviour.

You'll see more – some growers will decide to store their product, make their own marketing decisions somewhere during the selling period of that product, which could be up to 12 months. Others would prefer to sell for cash at harvest, but obviously the appetite for that amongst the trade could be limited. Some will be appreciative of pooling products because either they value the averaging or they value the fact that the risk management is undertaken centrally and it's not an activity they want to take on.

So the net result, Ray, will be a series of individual decisions – it's a market – by suppliers and buyers. We're not trying to be too prescriptive about how that should work, other than we want to use our knowledge and our capabilities to ensure that we've got competitive offers out there for growers and we've got compelling value propositions for customers.

Question: (Ray Brindal, Dow Jones) It sounds like you're expecting a reasonably high degree of brand loyalty from growers?

Gordon Davis: Well, look, we have to work to get that because growers will no longer be obliged to deliver to the export pool. But, likewise, we have to work to transfer the history, the relationships and the knowledge of our customers to the new environment also.

Question: (Ray Brindal, Dow Jones) Thank you.

Question: ([Unclear] Sharebrokers) International business, you've got \$600 million dollars in capital tied up there, that is unacceptable returns. What are acceptable terms and how are you going to compete against the international guys with enormous balance sheets, obviously more wide spread sheets, wider spread operations which should be better risk mitigators than you can have to offer?

Gordon Davis: I think, in terms of the returns' issue there's a range of activities we're taking in the business and there were some specific factors which impinged on that business in the first half.

In terms of your other question, we've always said that business was a niche business. We don't have the, you can put together the balance sheets of all the Australian participants in the grains industry and you don't even look like anything you find overseas. So we've always seen that business as a niche business and we've tried to find products and positions which don't put us at a structural disadvantage to the multi-nationals.

That said, as we flagged in the presentation, the dynamic in that business is different. Funding costs are different, both because of the increased value of commodities, the increased volatility we've seen, which has inherently meant more working capital and then the cost of that capital just because of the changing credit markets.



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So it is a business that has got the characteristic that you can choose your level of activity, because the positions are essentially self-liquidating in a very, relatively short period of time. So that's a constant challenge for us to make conscious decisions about what is the appropriate level of activity.

It's a very diverse business, fortunately, in that it operates in a range of different commodities and different geographies. But we have that under active review. Exactly what level of activity do we want in particular geographies, which particular commodities and as I said the real benefit of it is that you can make that decision and implement it in a relatively short period of time because you're not sitting on large fixed asset bases.

There's two questions on the phone.

Question: (Philip Hopkins, The Age) Could you just elaborate again, just on how important is the non-Australian grain trading internationally for the company now and I suppose it depends on just how big our grain crop will be and how much of it you get to export. But how would you relate that in the context of your broader activities internationally in grain trading?

Gordon Davis: It's a good question Philip. I think a lot of the global grain trade is optional origin. So someone will want to buy a product and they've got specifications but they're not determinant about its source. We've had to develop the capability to offer origins other than Australia, principally because with the production variability in Australia being so great that it's just not feasible for a customer to only ever have the option of getting grain out of Australia.

One year we'll have 25 million tonnes, the next year we might have 12. So multi-origin is a normal part of the mix and it's one of the things that we have to continue to be able to bring to the equation, if you're going to maintain a set of customer relationships.

In terms of the, at any point in time, that mix will largely depend on the production variability in the different geographies. But that's why it is a global market. The individual production variability gets dealt with by the trade bringing grain from other geographies.

So there is no sort of fortress Australia in that concept because the production variability is so great that from the customer's point of view the risk would be too great.

Question: (Tim Boreham, The Australian) I want to ask you if you have any expectation of re-entering the Iraqi market in the near future, or not so near future and is it something you're working on in terms of repairing AWB's reputation?

Gordon Davis: As you're aware, as we said at the full year the Iraqi Trade Ministers visited us last year trying to buy grain from the pool, because we weren't in a position to supply because the harvest was so small. And that's been the case this year. I think, just generally, when you look forward, one of the obligations the pool has had in a compulsory marketing system has been to



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essentially clear the system. I mean that's just the sale profile of the pool had to be adequate to shift the grain that was delivered to the pool. And as I previously said the grain delivered wasn't the choice of the pool, it was the difference between domestic production and domestic demand. Going forward and this is not a comment on Iraq, but going forward I'm sure people will look at a range of factors in choosing who they want their counter-parties to be, including their creditworthiness the operational difficulty, the risk and so forth and so on.

So I don't think Iraq is any different to any other market. The commercial entities as intermediaries will make their own decisions about what level of counter-party risk they want to take and that will drive their decision rather than any geographic focus.

Gordon Davis: I think we're just about done for time, aren't we. We're getting the wind up here.

Look I thank you for your time and attention. As I said it's good to see the numbers reducing as hopefully it reflects the fact that we're getting into a more commercial agenda and away from some of the other issues. Thank you.

[END OF TRANSCRIPT]