



# Chairman's and Managing Director's Report

**In the 2005 financial year, AWB met its financial and operational targets, and continued to grow as a leading Australian agribusiness.**

**From our integrated business platform, we have strengthened our core wheat business, while delivering new products, new services and new markets to our customers. This is our strategy in action.**

**We know success depends on our ability to shape the future by anticipating and responding to change. We also know that we have never been better positioned to achieve this.**

## Performance

AWB delivered a solid financial result again this year, recording an after tax profit of \$157.1 million (after goodwill and amortisation). Excluding significant items (most notable, the sale of its stake in Futuris Corporation Limited), AWB Limited delivered a net profit after tax (NPAT) of \$115.3 million – up 19% from the previous year.

The result is confirmation that our strategy of diversifying revenue streams is working, with strong contributions from Landmark and our Finance and Risk Management businesses, despite a less favourable season in 2004/05.

The AWB Group has a strong commitment to the wheat marketing business. In 2005, we have again delivered strong results for Pool participants with significant levels of out-performance for the National Pool. The result is good for growers, as it is for shareholders.

Our financial performance was also supplemented by the strategic sale of AWB's stake in Futuris Corporation Limited. Timed to deliver the greatest benefit to our shareholders, the sale realised an after tax profit of \$41.8 million.

## Creating Value for Customers

At AWB, we serve a diverse range of customers, both domestically and internationally. Our Australian customers, our farmers, have achieved significant productivity growth and continue to innovate to counter an unfavourable and unfair international trading environment. Our objective is to help Australian farmers to be more successful by providing competitive products and services through our Landmark and AWB networks. In addition to our traditional grains-related business, Landmark provides specialist skills in serving our customers with financial services, insurance, fertiliser and merchandise products and a broad range of agency services in livestock, wool and real estate. This is delivered through a network of 430 branches across Australia.

As the face of Australian agriculture changes, so must our businesses adapt to better serve our changing customer needs. Australian farms are becoming larger and more professional, and the total number of farms is declining. We are seeking to anticipate these changes, better align our business and increase our value to all farming enterprises.

The Integrated Business Model is a framework through which bundles of products and services can be offered to our customers. We are beginning to see the benefits of providing this integrated offering as our customers seek to create greater value on their farms. For example, bundling financing options with fertiliser and crop chemical sales has proven convenient and cost effective for farmers.

The building of an integrated value chain between international end-use customers and Australian primary producers is central to the company's growth agenda.

## Shaping the Future in Grain

The environment in which we operate is increasingly competitive. In recent years, non-traditional exporters have steadily increased their wheat production, and now account for about 25% of world trade. Emerging countries from the former Soviet Union, Eastern Europe and South America, are entering our markets. Meanwhile, our traditional competitors continue to be supported by huge subsidies that unfairly distort world markets.

AWB is responding to these challenges.

In 2005, we launched the next phase in our plan to further strengthen our position in the international grain market. 'Shaping the Future' is our comprehensive five year plan to focus on high value markets and further differentiate Australian wheat as a branded high-quality food product.

A key part of this strategy is to grow our market share in Asia, capitalising on our comparative freight advantage and our ability to supply grain that better meets the region's quality requirements. We aim to have 60% of our wheat export program into Asia by 2009. This year, we opened new offices in Singapore and Beijing to strengthen our presence in the region. This is backed by increased investment in research and development so we can better respond to market signals and take advantage of emerging consumer opportunities.

# We see expansion opportunities across a diverse range of agricultural commodities and services.

## Working with Growers

Support from our grower customer base remains strong. Independent research confirms that the overwhelming majority of Australian growers support the Single Desk wheat marketing system and AWB's management of it.

The 2004 Wheat Marketing Review, commissioned by the Australian Government, concluded that AWB's performance in international markets has delivered significant benefits to Australian wheat growers. The review made a series of recommendations concerning the administrative arrangements of the current system. AWB has considered and adopted many of these recommendations in consultation with the broader wheat industry. Our response was detailed in a final submission to the Minister for Agriculture in December 2005.

We have implemented improvements to our wheat marketing remuneration model to promote growth and better reward performance. We have also made changes to achieve greater transparency in our operations, in consultation with the Grains Council of Australia, the Wheat Export Authority and other industry bodies. We will continue to work collaboratively to address further changes over the coming year in our wheat export operations.

The independent inquiry into the United Nation's Oil For Food Program, which was commissioned by the Federal Government is expected to report by 31 March 2006. AWB is co-operating fully with this inquiry.

## Diversifying the Business

Through strategic management of the Single Desk and our Landmark business, and creation of diverse trading opportunities, we will remain at the forefront of agricultural trade and service provision, both domestically and internationally. AWB's diversification in the past three years now means we can offer both our primary producers and end-use customers an enhanced product and service range.

In the 2005 financial year we built on the benefits of our Integrated Business Model, improving product penetration per customer and expanding in areas such as finance, fertiliser distribution, livestock trading and horticulture.

We strengthened AWB's grain marketing offering with a new range of price risk management options in 2005, leveraging our capabilities in this area to provide enhanced choice and flexibility for grain growers.

The international trading business is also expanding through our existing Geneva operations, and with the establishment of a new office in New Delhi, India, to target the large Indian domestic market. These operations will provide an avenue into growing grain markets, as well as opening the door to opportunities for other commodities in the future.

We will continue to look at investment and acquisition opportunities in the year ahead that can add to our business proposition, and that meet our financial criteria.

## Our People and Community

The AWB Group has been part of the fabric of rural Australia for more than a century, and we believe it is important to contribute to the communities in which we live and work.

Through initiatives such as the AWB Young Leaders Conference and our support of various travel scholarships and bursaries, we foster and help shape the next generation of leaders in our industry. We also invest heavily in the development of infrastructure and essential services for rural communities through charity partnerships, sponsorships and fundraising activities.

We recognise that our achievements are only possible through the combined efforts of our people. AWB is a dynamic business – every year, we demand a lot from our employees, and every year they rise to the challenge. On behalf of the board and management, we thank them for their commitment and performance.



## Outlook

We believe the outlook for Australian agriculture is bright, and AWB is committed to being part of its long term future. We are confident that Australian agriculture can continue to be internationally competitive and we can help achieve this by aiding productivity and profitability gains for Australian farmers.

Forecasts for the 2005/06 harvest are positive, and we expect our trading operations to perform well. Backed by a new funding arrangement and armed with a full suite of more competitive lending products, we will expand our presence in the growing rural finance market. In other areas of the business, such as merchandise, fertiliser and livestock, we are well positioned to capitalise on a promising outlook.

In 2006, AWB will retain its focus on the core business augmented by strategic diversification. We will pursue growth opportunities across the agricultural sector. We will continue to build our integrated service offering to farmers and end-use customers alike and we will continue to confront and overcome the market challenges to maximise Australian agricultural value.

We believe success on these fronts will build value for the company, and for all our stakeholders.

**Brendan Stewart**  
Chairman

**Andrew Lindberg**  
Managing Director

