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AWB Limited today reported net profit of \$22.3 million for the first half ended March 2008, up 89 percent from the previous corresponding period (pcp). Profit before tax and non-recurring items (PBT), was \$64.5 million, up 107 percent, with a strong recovery in both the Rural Services and Australian Commodity Management businesses offsetting reduced earnings in the International Commodity Management business. Can you comment on the earnings outlook for the remainder of the year ending September 2008?

MD Gordon Davis

We have a policy of not providing earnings outlook statements. There are still considerable uncertainties for the business over the coming months. Weather conditions are at a critical point, and there hasn't been a uniform seasonal break. The level of agricultural activity in the second half will strongly influence our performance, although the Group's diversified business model mitigates this to some extent.

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AWB had net cash outflow from operations of \$298.8 million in the first half, compared with cash inflow of \$48.4 million in the pcp. This primarily reflected increases in working capital in the Australian and International Commodity Management businesses of \$115.1 million and \$235.7 million respectively. What's the rationale for tying up more funds in working capital in these businesses when returns remain sub-optimal?

CFO Philip Gentry

The return in the Australian Commodity Management business was reasonably solid on the back of an increase in EBITDA to \$25.2 million from \$2.1million in the pcp. We were encouraged by the improvement in its performance notwithstanding the higher working capital required, which largely reflected the increase in commodity prices.

Clearly the returns in our International Commodity management business were unsatisfactory with EBITDA down \$8.0 million on pcp to \$7.4 million. We'll be looking to optimise the business model to ensure we can compete sensibly and get a satisfactory return on the funds employed in the business.

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Of AWB's total debt of \$3.7 billion, all but \$120 million matures before the end of the 2008 calendar year. Can you comment on the level of support you're seeing for a refinancing of this scale?

MD Gordon Davis

Bank demand for lending to us in the current environment has been pleasing. Banks have seen inventory financing, backed by commodities for which prices have been rising, to be a relatively safe haven.

CFO Philip Gentry

We're in the final stages of negotiating an extension to the \$2.3 billion Rural Trust facility for a range of tranches out to 2010. We expect to be able to communicate very shortly on that matter. We're already in negotiations to refinance the balance of the debt that's due mainly in the last quarter of this calendar year. But I'd stress that other than the Rural Trust, all of this debt relates to working capital, seasonal financing flows or commodity transactions and we'd ordinarily expect those facilities to have one-year terms and to negotiate for their extension on an annual basis. This is business as usual for us.

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Note 12 in your Appendix 4D indicates that as at the end of March you were in technical breach of one of your debt covenants. How might this impact your ability to refinance your short-term debt?

CFO Philip Gentry

The important thing to note is that our bankers have granted a waiver in relation to this technical breach, which occurred principally because of our US\$24.2 million provision in relation to the Standard Chartered Bank litigation. This non-cash item caused our total debt to rolling 12-month EBITDA ratio to be slightly higher than the covenant. Furthermore the rolling 12-month EBITDA in the calculation also includes the significant items we booked at the end of the September 2007 year in relation to restructuring. Without the Standard Chartered provision, we would have been comfortably within the covenant and we expect to be back within it by 30 June 2008. I note that we're in compliance with all our other debt covenants.

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In the first half, AWB's overheads were up 12 percent from the pcp to \$234.3 million. Employee costs were up 1.8 percent to \$110.8 million. What ability

do you have to contain cost growth in an increasingly inflationary environment and what scope is there to achieve greater cost efficiency across the business?

MD Gordon Davis

If you strip out significant items in expenses such as the provision for the Standard Chartered litigation, the underlying increase in expenses in the first half was only around 5 percent. This increase in overheads reflected in part the investment in our operations in Brazil.

We intend to maintain our focus on costs. We see three opportunities to increase cost efficiency. Firstly, the work we've done through Project Simplicity is about reducing the overall level of corporate costs. Secondly, we're continuing the restructuring of our pool management activities out of statutory marketing. Thirdly, we're embedding sustainable productivity improvements in the business.

Each of those has application in the different parts of our business. In the Landmark business, we're embedding continual productivity improvements across the business.

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AWB booked net significant charges of \$26.4 million after tax in the first half, compared with \$13.1 million in the pcp. The major item was the \$26.4 million Standard Chartered provision. Why have you decided to book this provision given your view that you have a strong defence in the case?

MD Gordon Davis

We felt it was prudent to make a provision given the judgment against us by a US district court in January 2008. However, our stance remains unaltered – we will continue to vigorously defend the case and we're in the process of appealing the judgement.

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Rural Services' EBITDA was up 56 percent to \$32.3 million in the first half, reflecting the impact of more favourable seasonal conditions on merchandise and crop chemical sales and improved margin management. Can you provide more detail on how your strategic projects within Landmark might contribute to further margin improvements going forward? Will those improvements be sustainable in less favourable seasonal conditions?

MD Gordon Davis

The Rural Services business has been very resilient. I'm very pleased with the progress Graeme Jacobs and the team are making on their seven strategic projects which range from cost reduction through better procurement and investment in customer facing systems to rationalisation of the administrative structures in the network. We've made structural changes to how the business works and introduced new branding to positively reinforce Landmark's positioning.

Those improvements are designed to deliver sustainable benefits. We're already seeing the benefit of some of the improved processes in terms of efficiency gains. These are independent of seasonal conditions.

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A large contributor to the improvement in Rural Services was ELF Australia (Hi-Fert), your 50:50 fertiliser distribution joint venture with Futuris. ELF's profit contribution was \$3.9 million, compared with a loss of \$1.7 million in the pcp. To what extent did this reflect the recent increase in fertiliser prices? Are earnings sustainable at this level?

MD Gordon Davis

The business benefited from increased agricultural activity, in particular following the rains in the eastern states. Merchandise and fertiliser sales were particularly strong with customers building up reserves of farm inputs ahead of expected price increases.

Market pricing will be largely dependent on factors that we're not in control of such as the future profile of fertiliser prices.

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One of your targets in Rural Services is to increase revenue from new sources. Where do you see opportunities in a market that's perceived to be relatively mature?

MD Gordon Davis

There are two levels of opportunity. In an organic sense, there's the continued addition of products to the Rural Services suite. We announced last week the addition of a livestock leasing product to the Landmark Financial Services product suite to allow cattle producers to lease animals. It's a common way of financing livestock overseas. At the same time, Landmark continues to look for opportunities to ensure the network is complete and if there are geographic locations where businesses become available, we continue to appraise them.

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In Financial Services, EBITDA in the first half was \$22.9 million, up 41 percent from the pcp, with the contribution from Harvest Finance more than doubling to \$10.1 million and EBITDA from Landmark Financial Services up 11 percent to \$12.8 million. You've indicated that net interest margin on the Landmark loan portfolio reduced to 2.00 percent from 2.01 percent in the pcp and from 2.06 percent in the September 2007 half. Given the increased cost of wholesale funding, what's the outlook for net interest margin? In a competitive market, can you fully recover increases in funding costs?

CFO Philip Gentry

In the September half we were able to reduce our cost of funds by about 30 basis points as a result of a commercial paper issue in March 2007. Following the tightening of credit markets in September, the commercial paper markets dried up and we went back to liquidity support from banks so our funding cost went up. There's also a seasonal impact across the March and September halves in that customers tend to have higher overdraft balances through the second half and they're at a higher net interest margin.

Going forward, we expect the cost of funding will increase. Over time, we'd expect to pass all of this on to customers, however there will be some lag and for the current second half we'd expect a net interest margin contraction of 20

to 40 basis points. We've done a good job of maintaining our margin but it's going to be more challenging going forward.

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In the current credit environment, what is your ability to fund further growth in the Landmark loan portfolio?

CFO Philip Gentry

Bear in mind we have some \$200 million to \$300 million of headroom under the existing facility so it's not an issue in the short term. That said, we're very confident about funding further growth in the portfolio. The banks' interest in providing funding for the portfolio is strong and they've indicated they have an appetite to fund further increases as necessary. That support partly reflects the very high quality of the portfolio, with net non-accrual loans representing only 0.88 percent of gross loans at 31 March 2008.

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The increased EBITDA contribution from Harvest Finance partly reflected the pool incentive contracts offered by AWB for early pool commitments from the 2007/08 wheat harvest. You intend to continue offering harvest finance products as part of a wheat pool offer post wheat export deregulation. To what extent will the capital requirements of the business change as a result?

MD Gordon Davis

It's important to recognise that pooling is essentially a finance option for growers. A pool without a finance component is far less attractive – it simply becomes an averaging tool for growers. So part of our pooling intention is to continue to offer finance options. This year we restructured those options to reflect the market conditions and the regulatory environment we're working in, with lower pool volume certainty than we've traditionally had.

Going forward with commercial pool offers, not statutory pool offers, we'll structure the finance offer to reflect the conditions we're working in and the needs of growers. The extent to which the capital requirements will change isn't known at this stage and will depend on the type of finance offers we make through our pools. However, we're confident of achieving a relatively capital efficient harvest finance structure with our strong credit rated ring-fenced vehicle.

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In Commodity Management, first-half EBITDA was \$44.5 million, up 46 percent from the pcp, primarily reflecting an increase in contribution from Australian Commodity Management to \$25.2 million from \$2.1 million in the pcp. To what extent does the Australian Commodity Management result simply reflect trading profits on the back of recent sharp rises in commodity prices? Are earnings sustainable at the first half level?

CFO Philip Gentry

Prices contributed to the result, but there were also a number of other factors – including our success in the container market, chartering, and broader grain origination and sales activity.

MD Gordon Davis

Earnings in the 2007 first half were also depressed. We took a write-off on a custom feedlot business that was closed and earnings were probably at their low point. It's pleasing to see some recovery as volume picked up and we've been more active in the market. We see this as a core part of our business and we'd be hopeful we can continue to use our knowledge of, and presence in, the market to produce ongoing good performance. However, performance clearly depends on market conditions.

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International Commodity Management booked EBITDA of \$7.4 million, down from \$15.4 million in the pcp. The international segment has historically been more profitable than the Australian segment. How do you explain the divergence in results given both businesses operate in the same commodity market environment?

CFO Philip Gentry

The reduction in International Commodity Management earnings reflected three factors. First, there was a reduced level of activity in some parts of the business, for instance freight, partly reflecting the increase in the cost of funds. Second, there was a reduced level of activity because the price of commodities had increased so much, the volume of business we were able to do was constrained. Third, some parts of the international book produced disappointing trading results due to poor execution of some hedging activity. This is being addressed with selective improvements in capability and a more integrated global approach to commodity management.

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With \$601.6 million of working capital tied up in International Commodity Management, what are the expected returns from the business in the nearer term?

CFO Philip Gentry

Clearly the returns on that level of working capital are unacceptable. We're actively looking to improve the returns in this business in the period ahead, or we'll seek to reallocate capital to other areas where we believe better returns can be achieved.

As we've outlined, during the period we adopted a formal capital allocation methodology and are now measuring all the businesses, projects and divisions on returns relative to the respective capital employed. We'll be looking to more actively manage the allocation of capital in accordance with the risk/return profile of our businesses.

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Pool Management Services booked EBITDA of \$13.8 million, up 26 percent, partly reflecting a 32 percent reduction in administrative costs to \$13.8 million. You've indicated that following the finalisation of the 2007/08 pool, future pool management activity will be conducted through the Australian Commodity Management business. How competitive do you expect your proposed pool management model to be against cash products for wheat farmers?

MD Gordon Davis

We're confident we can have a very compelling pool offer for growers. We bring to the task our experience of running pools for many decades and understand those characteristics of a pool product that are attractive to growers. Obviously, our pools in the commercial environment will be different from those in the statutory environment. They'll be less complex, more responsive and won't rely on aggregating the export volume in one pool. We'll be providing more detail to the market and to growers about our pool offers, but while growers retain their confidence in pooling as a marketing tool we'd see pool management as a strong part of our business going forward.

With the move to an accredited exporter program, there will be a greater use of cash products at harvest, as we've seen in other markets as they deregulate. We'll participate in that space but at a level we feel is prudent and where we can get adequate return for the capital employed.

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What level of capital do you expect your pool model to require compared with the current arrangements?

CFO Philip Gentry

We're not expecting to release any capital from Harvest Finance, which we'll be using as support for our new pooling arrangements going forward. For this year's National Pool, we didn't conduct any pre-harvest hedging due to the volume uncertainty and therefore, the notional additional allocation of capital that we've had in our pooling operation in the past was not required.

Our previous comments around the potential freeing up of capital related to the fact that at the end of statutory marketing we expected not to have the same structure. Now we have more clarity on what will replace statutory marketing, we believe our Harvest Finance structure will be highly competitive under the new arrangements, and importantly, be capital efficient.

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Supply Chain and Other Investments booked a first half EBITDA loss of \$1.9 million, compared with a profit of \$2.1 million in the pcp. The loss from the Australian supply chain assets was \$4.3 million, compared with profit of \$1.2 million in the pcp. Will further restructuring be required for these assets to make an acceptable return?

MD Gordon Davis

What's required for these assets to make an acceptable return is rain! Their profitability is highly volume dependent. In the pcp we had the benefit of carry-over volumes still in storage from the bumper season 2005/06. We didn't have that benefit in the first half.

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At your AGM in February, your resolutions regarding constitutional reform failed to get the 75 percent approval required from both classes of shareholders. What are your intentions regarding constitutional reform?

MD Gordon Davis

We were encouraged that the resolutions got majority votes from both classes of shareholders. The Board has maintained its resolve to move to a single share class structure, and we'll be looking to achieve that at an EGM which we expect to hold in August, after the new wheat marketing legislation takes effect in July.

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You've announced a fully franked interim dividend of 4 cents per share, in line with the pcp. The payout ratio was 29 percent of EPS, pre-significant items, of 14.0 cents. This compares with your stated policy of paying out 40 to 65 percent of profit pre-significant items. What's the rationale for the relatively low pay-out and what's the outlook for the full-year dividend?

MD Gordon Davis

The dividend is consistent with the pcp and our view is that it's a prudent pay-out in the current environment. This is an interim dividend and the final pay-out is a question the Board will address again at the full year.

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Thank you Gordon and Philip.

For more information about AWB, visit www.awb.com.au or call Davina Gunn on (+61 3) 9209 2651.

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