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Announcements
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Public Announcement 2005 – 176

Full Year Results – ended 30 September 2005

Corporate File – Open Briefing

Please find attached for immediate release an open briefing series of questions and answers regarding the Full Year Results ended 30 September 2005.

Richard Fuller
Company Secretary

Wednesday, 23 November, 2005

Attention ASX Company Announcements Platform
Lodgement of Open Briefing®

AWB Limited
Levels 15-21
380 LaTrobe Street
Melbourne, VIC 3000

Date of lodgement: 23-Nov-2005

Title: Open Briefing®. AWB Limited. MD & CFO on FY 05 Results

Record of interview:

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AWB Limited today reported net profit after tax (NPAT) of $157.1 million for the year ended September 2005, compared with $96.9 million in the previous year. Profit before tax, significant items and amortisation associated with the Landmark acquisition was $184.5 million compared with $184.9 million in the previous year. You've attributed the result to the effectiveness of your diversification strategy, which offset the impact of a 17 percent year-on-year fall in wheat volume. What metrics can you point to in the 2005 result that demonstrate this effect?

MD Andrew Lindberg
Volume is still an important driver of our business, although less so than previously. That was illustrated in 2005 in that we had a reduction in wheat volume of about 4 million tonnes, coupled with a very late season that clearly had a significant impact on our rural services business. In spite of that we produced, as we said we would, earnings that were comparable to the previous year. That goes to the strengths of our rural services and our commodities management as well as our traditional wheat export business.

corporatefile.com.au
AWB's 2005 EBIT was down $6.3 million to $171.9 million and you've claimed a two-year cumulative EBIT uplift of $24.5 million from the achievement of your integration targets relating to the Landmark acquisition. Why doesn't EBIT fully reflect the integration benefits?

CFO Paul Ingleby
Late breaking rain and drought conditions through many regions, offset the integration benefits we achieved.

As seasonal conditions return to normal, the benefits of cost reductions and integration will be more evident.

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Where do you see AWB's key non-wheat earnings opportunities both near term and over the longer term?

MD Andrew Lindberg
Finance is one of our growth areas and our recent purchase of the Landmark loan book and creation of the Rural Trust position us well to grow our finance business by creating broader access to the capital markets and increased product flow. Landmark is now poised for growth through our integrated operating model and our strategies for cross-selling and product bundling, particularly given expectations of a better season. We also see opportunities in fertiliser, through Landmark's distribution joint venture with Elders, and we'll continue to expand our commodities management business, particularly offshore.

corporatefile.com.au
Your three-year target for ROE is 15 percent, up from 13.8 percent in 2005. Is 15 percent ROE attainable if seasonal conditions are unfavourable? What do you see as a sustainable medium-term average ROE for AWB?

MD Andrew Lindberg
We believe 15 percent is sustainable. Achieving that will be dependent upon our continued ability to diversify and improve the quality of our earnings, and that's what we're seeking to do.

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The group result included a non-cash gain of $22.9m this year against a $21.3m non cash expense last year. What does this relate to and what is the potential size of this going forward?

CFO Paul Ingleby
These amounts relate to provisions for doubtful debts and counter party risks. In 2004, the level of provisioning in the Grain Acquisition and Trading business increased due to the nature of the environment. These provisions have been reviewed in light of the changed environment and we were able to release a similar amount of provisions in the current year.

Fluctuations in provisions are a normal part of doing business. It is a way of managing risk. In opening up new markets or in highly active periods you take a more prudent approach to realising gains during times when there is less activity. Also, during 2005, we changed certain counter parties that lowered our risk profile. As the exposure to these counter parties wound down we were able to risk manage the exposure and so not incur losses that were previously provided for.

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In 2005, AWB's Pool Management Services earned EBIT of $36.3 million, up 11 percent from the previous year. What's the outlook for current-year earnings from Pool Management Services?

MD Andrew Lindberg
We'd expect improvements going forward as a result of our "Shaping the Future" strategy, the fact that we've now got more incentives under the new pool management remuneration system, and the more favourable conditions in terms of the global supply and demand balance and the lower level of the Australian dollar.

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Costs allocated to Pool Management Services increased 3 percent in 2005. AWB's base fee for managing the pool has, as of the 2005 year, been de-linked from pool value and now reflects the cost of providing services to the pool. What level of discretion do you have regarding the cost base and what mechanisms are in place for AWB to recover costs such as those incurred in winning new business?

MD Andrew Lindberg
The cost base is subject to annual review and negotiation between the independent directors of AWB (International) Limited (AWBI) and the parent company and it reflects the underlying costs necessary to deliver service in an efficient way.

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The "Shaping the Future" strategy is designed to protect and grow the value of the AWB National Pool. What specific initiatives are being taken?

MD Andrew Lindberg
The strategy's about improving the competitive position of Australian wheat in the world market. It's focused on developing new products, particularly directed towards the high growth markets in Asia, improving our technical support, increasing the efficiency of the supply chain and intensifying our efforts to bring about freer and fairer world trade in agriculture.

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A recent investigation of the UN's Oil for Food program in Iraq named AWB among the companies that paid kick-backs to the former regime. What's the potential impact of this finding at an operational level? What's the risk that AWB's perceived past practices will result in lost business with Iraq or other markets?

MD Andrew Lindberg
Firstly it's important to point out that the UN investigation did not find that AWB was knowingly involved in channelling funds to the regime. Secondly, it's been made clear by the Iraqis that any questions arising out of this past issue aren't pertinent to the business we have on our books currently. We've been assured, and so has our government, that we're very welcome in the Iraqi market and we certainly expect to continue to have significant business with Iraq going forward.

We’ve had no adverse reaction from our customer base and we continue to work hard to develop new markets. Whilst Iraq has been an important market, it’s certainly not the only one.

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The Oil for Food issue has intensified calls from both within and outside Australia for Australia’s “single desk” wheat export system to be dismantled. What is AWB’s response?

MD Andrew Lindberg
We’ve lived with these calls for a number of years. The reality is that the single desk system doesn’t distort trade. In a market characterised by vertically integrated multinationals, government subsidies, single-desk importers and monopolistic domestic supply chain providers, the single desk is the best way to maximise the export income of the Australian wheat industry. It’s supported by the vast majority of Australian wheat growers and has strong bi-partisan political support in Australia.

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Grain Acquisition and Trading booked EBIT of $75.9 million in 2005, down 26 percent from the previous year. To what extent did increased competition impact the result?

MD Andrew Lindberg
The domestic market is very competitive, but there’s no doubt the reduction in grain traded domestically was an important factor in the fall in earnings. Also, the seasonal conditions meant we saw growers, mindful of the drought in 2003, engaging in very little forward selling or derivatives trade.

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You’ve indicated that Grain Acquisition and Trading was also impacted in 2005 by more restrained trading conditions for Chartering than in the previous year. What are the main drivers of earnings in this sector and to what extent is the 2005 level of earnings sustainable?

MD Andrew Lindberg
The chartering market has come off its 2004 highs and has certainly been less volatile. Chartering still had a very good year, but the reduction in grain volumes had an impact on freight volumes.

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In Grain Acquisition and Trading you’ve adopted a “Fund of Funds” approach to managing capital, revenue development, diversification and risk management. What have been the specific benefits of this approach to date and what are you hoping to achieve?

MD Andrew Lindberg
Having multiple funds targeting different markets and different commodities is an important part of our diversification story. The Fund of Funds approach gives us greater control over individual positions and markets and greater flexibility in moving our capital and trading strategies in line with the available opportunities.

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Supply Chain and Other Investments generated an EBIT loss of $6.5 million, compared with profit of $1.8 million in the previous year, reflecting lower receivals at your grain centres. The loss widened to $4.0 million in the second half from $2.5 million in the first half. How are you seeking to improve the profitability of this business?

MD Andrew Lindberg
This segment is always going to be weaker in the second half than the first because most of the grain is received in the first part of the year. We've embarked on a range of initiatives to both grow the revenue and reduce the costs of the business. That, combined with the significantly improved outlook on the east coast of Australia, should lead to improvements in performance.

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To what extent have market conditions changed since AWB launched its grain centres and does the business still have the potential to add value as initially expected?

MD Andrew Lindberg
We think it does. And don't forget it's already added significant value through the reductions in supply chain costs that the increase in competition has brought about. We've benefited from that through the Pool out-performance system. There's no doubt the market's very competitive but equally, we haven't had a good season right across the east coast since we entered the business.

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Finance and Risk Management Products booked EBIT of $36.3 million in 2005, up 15 percent. The contribution from Harvest Finance products was down on the back of lower wheat production and prices. Will recent new product launches and a more proactive approach to clients simply protect AWB's harvest finance market share?

MD Andrew Lindberg
It's obviously a mature market and depends on volume and price. Our market share and margins have been reasonably stable, notwithstanding the competition, and with an improved outlook for both our grain volumes and the Australian dollar, we think we'll be in a strong position in the year ahead.

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Increased Risk Management activity and a strong treasury management performance underpinned Finance and Risk Management Products' EBIT growth. What scope is there to further develop these areas and can they continue to support earnings growth in Finance and Risk Management going forward?

MD Andrew Lindberg
We believe they can. We'll continue to be innovative in the risk management space and our treasury team will continue to contribute in a range of ways across the group. The team manages foreign exchange, interest rates and liquidity, and was an important contributor to the creation of the Rural Trust.

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The Landmark rural services network booked EBIT of $81.3 million in 2005, up 6 percent on revenue growth of 2 percent to $1.7 billion. What was Landmark's market share performance during the 2005 year?

MD Andrew Lindberg
There's no published data on market shares, but we're confident we've retained our position in the markets in which we operate. Given the difficult seasonal conditions and late rains, we were pleased that key indicators relating to merchandise and fertiliser, livestock, real estate turnover, loans outstanding, deposit balance and gross written insurance premium were all up from the previous year.

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You've indicated that merchandise and fertiliser sales increased 3 percent compared with the previous year. Can you comment on the competitive pressure and outlook for margins in these areas?

MD Andrew Lindberg
There's no doubt the market has been very competitive, but margins should improve going forward given the improved outlook for the overall utilisation of fertilisers in particular on the back of a better season and improved prices.

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What has been the impact on Landmark's fertiliser business of its joint venture with Elders, ELF Australia, which was established in December 2004 and has a 67 percent stake in the Hi-Fert fertiliser distribution business?

MD Andrew Lindberg
ELF is an important strategic investment to vouchsafe our retail distribution of what we see as a core product. There is, and will continue to be, restructuring on the east coast as a result of the formation of ELF and we expect improved returns from the business going forward.

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In finance, Landmark's earnings grew 12 percent, with a 41 percent increase in the loan book to $1.56 billion and 86 percent growth in interest-bearing deposits to $550 million. To what extent is the rural finance market driven by price and to what extent by other factors? How is Landmark's financial products business positioned in terms of market share and margins?

MD Andrew Lindberg
There's been significant price competition, but the creation of the Rural Trust and our capacity to bundle finance with the physical products we manage for farmers, whether on the input or output side, together with our distribution power through 430 rural outlets, places us well to grow the business profitability going forward.

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AWB's Corporate Items generated an EBIT expense of $51.4 million in 2005, compared with an expense of $67.4 million in the previous year, reflecting the absence of integration and restructuring costs incurred in the previous year. What scope is there to further reduce corporate overheads?

MD Andrew Lindberg
Going forward, we'd expect overheads to be comparable to the 2005 levels. But overheads continue to be a focus of management and we believe we'll be able to extract further efficiencies going forward.

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Net debt stood at $965.4 million at the end of September 2005, down from $1.4 billion a year earlier. Excluding borrowings on-lent to growers, what is the level of "corporate" gearing? What options are there to increase AWB's capital efficiency?

CFO Paul Ingleby
Excluding the funding of financed options, our net debt to debt plus equity is in the range of 20 to 30 percent and management continues to review options for more efficient capital management consistent with our growth aspirations.

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Thank you Andrew and Paul.

For more information about AWB, visit www.awb.com.au or call Delphine Cassidy on (+61 3) 9209 2404

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