



To: The Manager
Announcements
Company Announcements Office
Fax: 1300 300 021

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2007 Annual General Meeting – Chairman’s Address

Pursuant to ASX Listing Rule 3.13.3 please find attached for immediate release the Chairman’s prepared address that will be delivered at the Annual General Meeting today.

Peter Patterson
Company Secretary
Thursday, 22 February 2007

Chairman's Address to AGM – 22 February 2007

I would like to talk to you today about the past and the future.

1. The past

As all of you would be aware, the last 12 months have been an extra-ordinarily difficult time for the company and its shareholders.

Your company has been subject to a prolonged period of public scrutiny over its participation in the Oil-for-Food Program.

While many companies were involved in the Oil-for-Food Program, only AWB has been subject to the intense scrutiny of a commission of inquiry.

This was a rigorous process that exposed the Directors and management to legal challenge and personal vilification.

As many of you are painfully aware, we have also had to deal with one of the worst droughts in living memory.

The drought not only severely reduced the amount of wheat grown during the recent harvest.

It also adversely affected the amount of fertiliser and merchandise sales through our Landmark business.

The performance of the Company clearly suffered as a result of these combined events.

Reported net profit after tax fell from \$184 million in 2005 to just over \$58 million in 2006.

The uncertainty arising from the review of wheat marketing arrangements also adversely affected shareholder sentiment about the company.

In these circumstances, the Directors agreed that it would be prudent to reduce the final dividend to 4 cents per share, bringing the total dividend for the year to 20 cents per share.

However, during the year Directors took urgent action to restore shareholder faith in the company.

- We appointed a Managing Director, Gordon Davis, and a new management team;
- We initiated a review of wheat contracts by PwC; and
- And we commissioned a full governance review by KPMG.

The governance review undertaken by KPMG has been largely completed.

The first set of KPMG recommendations have been considered by the Board of AWB Limited.

Several recommendations requiring Constitutional change are effectively picked up in our de-merger proposal which I will discuss in more detail shortly.

All other recommendations will have been acted on by next year's AGM.

It is important to remember that we have continued to diversify and grow the business despite the difficult issues we have faced.

In the last 12 months we have:

- appointed a new managing Director and refreshed the managed team
- established a joint venture with Fonterra, acquiring a 50% stake in the RD1 stores in New Zealand and together establishing the Australia diary alliance
- established a Rural Trust and \$2.2 billion loan book, including the acquisition of the rural loan book from Rabobank
- increased the value of our Rural Trust with the acquisition of the \$165 million rural loan book from Adelaide Bank
- strengthened the position of our fertilizer business on the east coast through the acquisition of BHP Billiton's 33% holding in the fertiliser distributor, Hi-Fert
- continued our international diversification with the opening of a new office in Brazil
- the Indian business, established one year ago, is also trading ahead of expectations, generating more than US\$200 million in turnover

These initiatives show we are taking appropriate action to restore and grow shareholder value.

However, it will take some time for the benefits of this rebuilding strategy to hit the bottom line.

And in the short term, performance will continue to be adversely affected by the impact of the prolonged drought and changes to wheat marketing arrangements.

These adverse impacts have more than offset the cost savings initiatives AWB has implemented over the last 12 months.

In these circumstances, AWB earnings this year will be significantly lower in 2006-2007.

Gordon will talk to you in more detail shortly about our operational issues and future challenges.

Before I move on to the future, it is important to confirm the Board's position on the Oil-for-Food Program.

2. Oil-for-Food Program

The commission of inquiry into the Oil-for-Food Program examined how AWB conducted wheat sales to Iraq between 1999 and 2004.

I do not intend to go through the detail again today because the report was extensive and there are many unresolved legal issues which are currently being considered by the appropriate authorities.

The Board has issued a comprehensive response to the Commission of Inquiry report and it would not be appropriate to elaborate on the contents of the report at this time.

However, let me assure you that the Board is committed to building the right accountability and operating culture in the future and making significant changes to ensure this never happens again.

Gordon Davis has launched a Group-wide cultural change program to develop and commit to a new set of values and behaviours that change the way we operate.

Gordon will talk more about this shortly.

There are several outstanding issues arising from the Oil-for-Food Program that are still to be resolved.

The legal and regulatory Taskforce appointed by the Government following the commission of inquiry is still considering whether any action should be taken against the company or individuals.

During this process, it is critical that any individuals be treated fairly.

In this respect, all members of the former management team have received their legal entitlements on leaving the company – no more and no less.

There has also been speculation about various class actions against the company.

So far, only one class action has been formally served on AWB – an action in New York on behalf of seven named Iraqi citizens against BNP Paribas and AWB.

We believe that this claim is ill-conceived and AWB will vigorously defend this claim

No class actions in Australia have been formally lodged or served on AWB.

Late last year, AWB Limited provided AWB International with an indemnity for costs arising from any ATO review of deductions made under the Oil-for-Food Program and legal costs arising from the Oil-for-Food Program.

The ATO has subsequently advised us that it has finalised the AWB business audit between the years 2000 and 2004 and that an amended assessment will not be issued.

In 2006, AWB Limited incurred \$23 million in legal costs arising from the commission of inquiry.

In 2007, we expect AWB Limited will incur less than \$10 million in legal costs arising from the commission of inquiry.

We are continuing to actively manage these legacy issues and will continue to update shareholders on any material developments as they occur.

I would now like to focus on our proposals to make AWB a better company in the future.

3. The future

The Board announced last November that we would consult with wheat growers and shareholders about plans to split AWB into two separate legal entities.

We are encouraged by the results of those consultations:

- a majority of wheat growers attending meetings convened by the Government's review Committee have indicated support for the Single Desk, managed by AWB
- a recent survey by AWB confirms that a 'silent majority' of wheat growers support those who have spoken at the Committee meetings; and
- a series of meetings with grains groups around the country has found significant support for the de-merger proposal.

The Grains Council of Australia also met in Canberra recently and confirmed its six key principles for any changes to Australia's Single Desk wheat marketing arrangements.

The six principles recommended by the GCA are:

1. Separating the ownership of the Single Desk franchise from the commercial service provider
2. Wheat grower ownership and control of the Single Desk franchise
3. The highest levels of governance and transparency
4. Maximisation of net returns to National Pool participants
5. Security of payment to National Pool participants; and
6. Contestable service arrangements to the National Pool

The AWB de-merger proposal builds on those principles and remains our preferred approach to evolution of the current wheat marketing arrangements.

Today's AGM provides an appropriate opportunity to outline to shareholders the key elements of our proposal.

Under the de-merger proposal, AWB International will become an independently grower-owned and controlled company that manages the National Pool arrangements.

The key functions of AWB International in managing the National Pool will be to:

- Maximise net returns to wheat growers
- Provide a buyer of last resort facility
- Provide payment security through quarterly distributions
- Manage services contracts
- Report on single desk performance
- Inform and represent industry; and
- Support industry development

Under the proposal, AWB Limited will continue to be an ASX listed company. It will remain owned and controlled by shareholders.

As a stand alone business, the key functions of AWB Limited will be:

- Competitive Pool services
- Domestic commodity management
- Rural and financial services through Landmark; and
- International commodity management businesses

The de-merger will enable AWB Limited to become a much more efficient and commercially focused organisation with a standard commercial Constitution that will facilitate the transition to a more competitive environment.

The Board is confident that AWB Limited will continue to be a competitive and competent service provider to a National Pool managed by a separate AWB International.

We will take shareholder feedback into account in developing a final proposal that will ultimately require formal shareholder approval at an Extra-ordinary General Meeting.

However, we believe it is prudent to wait until the Government's review of wheat marketing is completed before we finalise our plans and put them to a shareholder vote.

We do not believe it is appropriate to spend grower and shareholder money on a detailed de-merger proposal until we have clarity about the Government's future plans for wheat marketing.

The Committee appointed by the Government to consult with wheat growers is coming towards the end of its national road-show.

The Committee is expected to report to the Government at the end of March.

The Government will then consider their recommendations and make a decision about the future of wheat marketing.

If there is any legislative change, it will probably occur in the budget session of Parliament in May.

This will enable any new arrangements to be in place before the current temporary arrangements expire on 30 June.

This will enable AWB to confirm arrangements for an EGM to seek shareholder support for a de-merger or some other form of restructuring in the second half of this calendar year.

Once approved, it will be up to the independent Board of AWB international and wheat growers to determine the final structure and operations of their company.

It is worth noting here that the de-merger proposal or some form of restructuring will ultimately change the Board appointments process for both companies.

All A class Directors would be required to retire from the Board in accordance with the Constitution.

However, they would be eligible to stand for re-election by shareholders if they wished.

The ultimate composition of the AWB International Board will then be decided by the grains industry and wheat growers.

The composition of the AWB Limited Board will also be determined by its shareholders.

The objective is to ensure that Directors of both companies have the right mix of skills and experience to maximise grower and shareholder returns.

I have previously indicated that it is my intention to stand down as Chairman once the future structure of the company is decided by shareholders.

This will provide a sensible transition period for the new Managing Director and allow a new Chairman to be appointed to lead the company under a new structure and Constitution.

Today, the Deputy Chairman, Mr Robert Barry, will stand down as Deputy Chairman and retire from the Board.

Rob Barry has been a Director of AWB Limited since January 1999 and has provided the Board with invaluable advice on a range of issues.

Rob has dedicated many years to Australian agriculture and I would like to personally thank Rob for his support during his time on the Board, and especially during my time as Chairman.

The Board has decided to appoint John Schmoll as Chairman of the Audit Committee following Rob's retirement.

We are confident that John will bring significant commercial experience to the role.

4. Closing remarks

Before I hand over to Gordon, I just wanted to say thank you to the Board, the management team and the employees of AWB and Landmark for their tremendous support and contribution over the last 12 months.

AWB and Landmark have a proud past and I would like it to have a proud future.

We are determined to learn from the mistakes of the past and ensure they never happen again.

And just as importantly, we must improve performance and ensure that growers and shareholders can be proud of their company once again.

We will continue to meet our legislative and Constitutional requirements to maximise net Pool returns to growers and provide shareholders with a 'reasonable' rate of return.

And despite the short term challenges that we are facing, the prospects for the future are bright.

Early indications by an independent forecaster predict a record crop of between 26 and 27 million tonnes next summer if the drought breaks in autumn.

And there is only one Australian company that would have the capacity to run a National Pool for such a crop.

That is your AWB.

I will now hand over to Gordon so he can tell you what he and the management team are doing to improve performance and shareholder returns.