



Andrew Lindberg, Managing Director and **Brendan Stewart**, Chairman

chairman's and managing director's report

For AWB, 2003 was an eventful year, marked by unique operational challenges and a strategically important acquisition.

The challenges we confronted included drought, war, and extraordinary wheat market volatility. However, we were well positioned to meet the challenges and have weathered one of the toughest seasons by capitalising on our strengths, with innovative and flexible management and retaining a commitment to our company strategy.

We have laid down a tangible platform for growth with the acquisition of Landmark from Wesfarmers. It is a transaction that precisely meets our strategy to diversify revenue streams and strengthen our core wheat business.

Drought impacts our Financial Result

AWB's profit this year reflects the impact of what was in some parts of Australia, the worst drought in more than 100 years. It was a drought that reduced Australian wheat production from a record 24.9 million tonnes to 9.7 million tonnes, and reduced Pool deliveries from 19.6 million tonnes to about 4.7 million tonnes.

The severity of the drought impacted AWB, as well as Australia's wheat growers. In response, AWB adopted a proactive management approach for the AWB National Pool, and implemented a significant cost minimisation program to reduce the operational cost base for the company.

In this environment AWB announced a full year financial result of \$43.9 million – a result we believe is a creditable one in the circumstances. Consistent with its commitment to a stable dividend policy, AWB declared a total dividend of 25 cents per share for 2002/03.

A Landmark Acquisition

29 August 2003 was an exciting day for the company. It was the day we positioned AWB as Australia's leading agribusiness with the acquisition of Landmark.

The acquisition strengthens AWB's core wheat business and achieves substantial diversification in rural and financial services. AWB now provides a unique, one stop shop for the Australian farmer, with a suite of products and services that extend across their inputs and outputs, from inside the farm gate into the hands of our international customers.

AWB has a comprehensive integration plan in place to achieve revenue and cost synergies, and as part of the plan has commenced consolidating the head office functions. The Landmark head office in Sydney will close on 31 March 2004.

Highest ever Gross Pool Value

We have not lost sight of our core business. In fact, during the year we delivered the highest ever Gross Pool Value - \$5.3 billion - with the finalisation of the 2001/02 AWB National Pool. It was a result that required innovative pool management in the face of some difficult market circumstances, and involved two "Pool extensions" which protected an estimated \$300 million in value for its participants.

Success in Iraq

The biggest marketing challenge during 2002/03 was Iraq. When hostilities erupted in the region in March, we were confronted with uncertainty – both about the future of our existing 1.2 million tonne contracts with Iraq, and the long term future of what is one of Australia's most important wheat markets.



What we were certain of however, was that our long trading history, the tried and tested relationships in Iraq and the skills and experience of our team would hold us in good stead. Since then, AWB has delivered on every aspect of our Iraq commitment: we successfully managed the logistics and execution risks presented by the outbreak of hostilities, we met the urgent needs of our Iraqi consumers by being the first to resume trade after the war, and we have subsequently secured funding for all 1.2 million tonnes of the wheat contracts previously struck with the Iraqi Grains Board.

There is little doubt the Iraq market will change shape, and we will face increased competition. However, with a quality product and a proven track record over 50 years, AWB is clearly well positioned to meet any new competition in the market.

Commitment to the Single Desk

AWB remains steadfastly committed to the retention of the Single Desk for wheat exports, and the benefits it provides to growers.

In 2004, a review will be conducted of AWB (International) Limited's (AWBI) operation of the Single Desk. By outperforming the Wheat Industry Benchmark, as it did during 2003, AWB believes it will demonstrate again, the clear and tangible benefits of the current Australian wheat marketing system. This is not a National Competition Policy (NCP) review of the Single Desk. The Single Desk legislation (Wheat Marketing Act 1989) is scheduled for review under NCP principles in 2010.

Australian wheat growers have reaffirmed their support for the current Single Desk system, with an independent and national Rural Press survey in August 2003 finding more than 80% supported the system, and that 79% regarded AWB's management as "good to excellent".

Strong Credit Rating

During 2003, AWB incorporated changes to "ring fence" its wheat export related operations from its commercial activities. The reason for this was to improve and protect the ongoing operations of the AWB National Pool and the credit rating which supports finance to growers who deliver to it. This benefits the AWB National Pool by protecting it from the commercial activities of AWB and providing the ability to source competitive funding from the international market. AWB now retains the highest credit rating possible given our business mix and overall capitalisation.

Competitive Global Environment

Australia's export dependent farmers continue to compete in a grossly distorted world market, and trade issues remained a key priority for AWB during 2003.

Trade reform progress through the World Trade Organization has been difficult, with talks faltering in Mexico in 2003. However, AWB remains committed to pursuing a more level trade playing field for Australian growers, who are among the most productive and self sufficient in the world.

AWB has been supportive of the bilateral trade agreements pursued by the Australian Government. A Free Trade Agreement (FTA) with Thailand this year presents further opportunities for Australian wheat in south east Asia. The FTA with the United States does not deliver significant benefit to the local grains industry as there is already free trade between the two countries. AWB supports the FTA for the potential benefits it could bring to other Australian agricultural industries, but is committed to ensuring wheat growers are not disadvantaged by any trade agreement.



Andrew Lindberg meets the Iraqi Interim Minister of Trade and Interim Deputy Minister for Planning.



Brendan Stewart meets growers in Esperance, WA.



As a gesture of AWB's appreciation of its long-standing trade relationship with Iraq, Mr Lindberg presented Dr Ali Allawi with two skid steer loaders. From left to right: **Michael Long**, General Manager, Africa, Europe & Middle East; **Dr Ali Allawi**, Iraqi interim Minister for Trade; **Andrew Lindberg**, Managing Director; **Mr Faik Rasool**, Iraqi interim Deputy Minister for Planning and **Mr Stephen Belani**, Director Case Equipment - Victoria.

A Solid Strategy

AWB has two dominant strategic objectives:

Strengthen Core Wheat Business

The equation is simple: by managing the Single Desk system effectively, and maximising returns to growers, AWB will also generate a commercial return for its shareholders.

We are delivering on that formula, and are well positioned to continue. Australian growers produce a quality wheat product, at relatively low cost with a strong brand internationally. We are also committed to reducing costs and improving services to growers by increasing competition and efficiencies in the grain supply chain. We will continue to pursue opportunities to secure end user demand for Australian wheat by improving our product and service offering, and the value proposition for our customers.

Grow and Diversify

It is also appropriate that AWB pursue sensible and rational diversification of its revenue streams. Doing so reduces its exposure to the Australian crop size, while strengthening the organisation's capacity as Single Desk manager.

AWB plans to diversify within the value chain, by increasing the volume of grains and other agricultural commodities under management. We can leverage our world leading expertise in grain marketing and risk management, and our established global sales customer base that is spread across 40 countries.

We are also targeting growth by expanding our financial and risk management offering. AWB will use its acquisition of Landmark, and build on its strong relationship with growers and customers, to

provide an extensive and unique one stop shop of rural and financial services and commodity management.

Looking Ahead

AWB's financial objectives focus on solid financial growth, stable dividend payments, efficient capital management and improved quality of earnings.

In 2004, our priority will be the successful integration of Landmark, capitalising on synergies and creating opportunities to improve our earnings. We have a strong integration team in place with clear goals and challenging performance targets set over a two year integration period.

The environment for this to take place is encouraging. The Australian wheat crop has rebounded significantly for the 2003/04 harvest, returning to levels that exceed the five year average. Internationally, global wheat stocks are at historically low levels, which provides a foundation for strength in world grain markets.

Our Thanks

We have asked much of our staff through this tough and challenging year. On behalf of the AWB Board and management, we would like to thank them for their dedication, commitment and excellent performance.

Brendan Stewart
Chairman

Andrew Lindberg
Managing Director

