

## **Chairman's comments to shareholders on AWB Constitutional reform**

The Notice of Meeting to shareholders on 14 July outlined the case for and against AWB Constitutional reform.

The Notice of Meeting was sent to every A class shareholder and we provided a company call centre number to answer any detailed questions.

The Managing Director, Gordon Davis, also conducted a national road show of 37 shareholder meetings in all major wheat grower centres to explain the changes and answer any questions in detail.

Over 2,000 wheat growers attended the meetings – that represents more than 10 per cent of all A class shareholders.

Gordon will show you some of the slides that he presented to growers at those meetings shortly.

As part of the information campaign, AWB commissioned research by IPSOS on grower loyalty and issued a number of media releases to ensure widespread coverage in the rural press of the key issues.

In Western Australia, we also placed advertisements in the rural media quoting grower support for AWB Constitutional reform.

We did this in WA because it was the only State where a major grains organisation opposed the reforms and we were keen to show that the

particular grains organisation did not represent all wheat growers on this issue.

Finally, AWB ran a call campaign by its Grain Marketers and a proxy monitoring company, Radar, to ensure that wheat growers had received the Notice of Meeting and were intending to vote.

The Board is comfortable that this was a comprehensive program at a reasonable cost to B class shareholders to promote the company recommendation supporting Constitutional reform.

You will recall that 62 per cent of A class shareholders who voted at the Annual General Meeting in February supported the same reform proposals as you are being asked to vote on again today.

While a majority of A and B class shareholders supported the resolutions at the AGM, we did not achieve the relatively high hurdle of 75 per cent of A class shareholder support at that time required by the Constitution.

The primary reason we did not secure 75 per cent support at the AGM was that many A class shareholders thought it was premature to reform the company Constitution while the Single Desk was still in place.

Once the Single Desk was replaced by the new accreditation system of multiple exporters on 1 July, the Board decided it was appropriate to test shareholder support for reform once again.

Unfortunately, not all Directors supported the resolutions put to shareholders.

One long standing A Class Director, Xavier Martin from NSW, changed his position from supporting reform at the AGM to oppose reform this time.

Three new A class Directors elected at the AGM on an anti-reform platform also opposed the proposals put to shareholders.

They are Russell McKenzie from Victoria, Colin Nicholl from Western Australia and Rodger Schirmer from NSW.

The Board ensured that their dissenting statement was sent to all A class shareholders in the Notice of Meeting.

This fulfilled the Board's obligation to inform A class shareholders of the dissenting view.

The dissenting Directors were also given the opportunity to present their case at the grower meetings convened by the company over the last five weeks.

However, the Board did not consider it was appropriate to spend further company funds on any additional support for the dissenting view which we believe will ultimately destroy shareholder value.

It is worth noting at this stage, that the way in which a director comes to the board, is totally irrelevant to their duties as a director once they are appointed. Every director is duty bound to act in good faith and in the interests of the company as a whole at all times both now and in the future.

It is also important for shareholders to understand the position of each of the directors on AWB limited and AWB international Limited, and be clear that the majority of A class elected Directors on both boards support reform, despite claims that the majority of A class Directors oppose reform.

Those A Class Directors supporting reform on the AWB Limited Board include myself, Brendan Fitzgerald and Steve Chamarette..

The A class Directors supporting reform on the AWB International Board include its Chairman, Ian Donges and James Rackham.

One A class Director on the AWB International Board, Wayne Gibson from abstained from expressing a view about the shareholder vote.

That means there are five A Class Directors in the company supporting reform, four A class Directors opposing reform and one A class Director abstaining.

In addition to the majority of A class elected Directors supporting reform, all of the four commercial and additional Directors on the AWB Limited Board support reform.

That includes Tony Howarth, Peter Polson, John Schmoll and Fred Grimwade.

That means there are a total of nine Directors supporting the reform proposals before you today and only four against, with one abstaining.

The majority of the Directors are strongly of the view that the reform proposals before you today are clearly in the interests of the company as a whole and wheat growers.

Those Directors have been pleased with the response to the latest reform proposals with many wheat growers attending the meetings in the last five weeks voicing their support for reform.

Of course the ultimate test of that support for reform will occur at the end of this meeting.

Before I move on, I would like to make a few additional observations about AWB reform.

Firstly, those who oppose reform would have you believe that it is only AWB that is pushing for reform.

Nothing could be further from the truth.

A majority of national and State grains organisations have publicly supported the AWB reform proposals.

The majority include:

- The Grains Council of Australia
- The Victorian Farmer Federation
- The South Australian Farmers
- Agforce, the State farmers federation in Queensland
- The WA Grain Group; and
- The Eastern Wheat Growers

Representatives of those organisations are here today and I welcome them to the meeting.

Secondly, all of Australia's leading governance advisory agencies support the AWB reform proposals.

They include:

- The Australian Shareholders Association
- Riskmetrics
- Corporate Governance International; and
- Regnan

Representatives of those organisations are also here today and I welcome you to the meeting.

These organisations represent the 55,000 B class shareholders who voted overwhelmingly to support AWB reform at the AGM.

It is important to remember that 60 per cent of the B class shareholders are mum and dad investors, and wheat growers, in rural and regional Australia.

It is worth noting that the Grain Growers Association abstained from making a recommendation and that the NSW Farmers Association encouraged its members to vote but also did not take a view on the AWB reform proposals.

Despite the rhetoric, only three grains organisations oppose the AWB reform proposals.

This minority includes:

- The WAFarmers Grains Council
- The Wheat Growers Association; and
- The Wheat Growers Action Group

It is important to analyse the real motives of these organisations.

For example, WAFarmers has a direct conflict of interest in grains marketing and AWB matters because it has entered into a strategic commercial alliance with a competitor of AWB.

If proper governance standards were applied, WAFarmers would abstain from the AWB reform debate and related grain marketing issues while they continue to have this commercial conflict of interest.

The Wheat Growers Action Group was established to represent A class shareholders while AWB managed the old Single Desk arrangements.

Without A class shareholders, the Wheat Growers Association would not have a role. It is therefore not surprising that they oppose AWB reform.

Little needs to be said about the Wheat Growers Action Group, established by a group of grain growers from NSW to defend the Single Desk. The single desk was legislated out of existence on July one by a majority vote of the parliament, 110 votes to 5.

It's web site reveals a clear political agenda that is totally inappropriate in a commercial enterprise such as AWB.

It is extremely disappointing that the anti-reform groups has focused on peripheral issues rather than the substance of the reform proposals.

The Wheat Growers Association and Wheat Growers Action Group have publicly complained about the AWB voting process.

Their alleged criticisms rest on unsubstantiated claims by unspecified AWB shareholders about the voting process.

I would like to take this opportunity to totally reject all unsubstantiated claims of inappropriate behaviour in the voting process by AWB or its share registry manager, Computershare, or call centre manager, Radar.

AWB has complied at all times with all the voting provisions in the company Constitution and in the Companies Act.

I would be pleased to review any hard evidence of inappropriate behaviour.

Before I move to the substance of the proposals it is important that all shareholders understand what the current constitution confers on shareholders.

#### The A Class Share

- The right to elect 7 directors and appoint 2 more (Board of 12)
- The A class share has no redemption value
- No value for sale (can not be traded) and no right to dividends
- Not transferable
- Register based on deliveries to the company over 3 year period
- No guarantee of loyalty (can receive A class entitlement having never delivered to any AWB entity)

#### The B Class Share

- Own the company though 346m shares
- Carry all the financial risk of the company – share value, dividend stream, liquidation risk
- Originally 100% grower contribution, never 100% grower owned
- Now approx 55,000 equity holders
- Active growers today hold approx 20%, with those retired/ no longer selling to AWB a further 20%

Whilst this structure and its clear misalignment between the interests of those who own the company, and those whose use its services, may have

been defensible under a legislated export monopoly, this is no longer the case, and was never intended to be the case.

That's why the current constitution envisaged the end of the legislative monopoly, but did not envisage the current operating environment and the system that was to follow.

It is for these reasons that the Board has brought before you comprehensive reform to position the company for the future.

The majority of the Board, the majority of national and State grains organisations, all international and Australian governance agencies, and a host of leading agri-business analysts agree that:

- the current Constitution is a handbrake on the ability of AWB to compete on a level playing field with bulk handling companies and multinational traders in the new deregulated wheat export market
- the dual class shareholding structure is complex, costly and serves no commercial purpose now that the National Pool has come to an end; and
- unless AWB amends its Constitution it will not be able to raise equity or debt at competitive interest rates to fund grain trading in competition with the bulk handlers or multinationals, those who do not have similar such restrictions placed on them.

I note that A class shareholders in ABB and Graincorp – two of our major competitors - have already voted to end their dual class share structure so

that those companies can raise capital and compete in the new deregulated wheat export market.

Australia's leading agribusiness analyst, Malcolm Bartholomaeus, argued the case for reform strongly in his Callum Downs newsletter on 8 July:

*“In my view, AWB is the legacy wheat exporter who will set the benchmark for the industry. I certainly will be benchmarking other operators against the level that AWB are able to set.*

*To me that means that AWB will need to be as competitive as possible. A part of that is allowing AWB full access to working capital at least cost. That means access to equity capital (shareholder funds) and debt at low rates based on a high credit rating.*

*We have no choice. AWB must normalise its corporate structure by removing its dual class shareholding system. That will open up the way to raise more equity finance, and the improved governance systems that should result, should improve the ability of AWB to secure a positive credit rating.”*

Several major State grains organisations have also put their weight behind the case for reform.

The VFF Grains Group President Geoff Nalder said that it was important for AWB to operate with the same structure as its competitors if it is expected to perform in the new wheat marketing environment.

*“Whether we like it or not, the Single Desk is gone. ABB and Graincorp have normalised their Constitutions and keeping the dual share class structure would limit AWB 's capacity to compete in the Wheat Export Market,” Mr Nalder said.*

*“The VFF Grains Group supported the proposed Constitutional changes at AWB's February AGM and today's decision is consistent with that position.”*

Acting Chairman of the South Australian Farmers’ Federation (SAFF) Grains Council Mr Jamie Smith said *“the past is gone and we need to secure the future for the wheat growers of Australia by ensuring there are a number of strong, commercially focused companies competing for our wheat growers business.”*

*“The SAFF Grains Council believes that it is vitally important for wheat growers that AWB be one of those companies.*

*“AWB has occupied a unique position in the industry that has allowed it to develop skills and systems in wheat marketing over a long period, with knowledge of the market and developed relationships with growers and customers.*

*“These advantages will be part of AWB’s competitive strength and should contribute to the pressure on all companies to perform.*

*“However, this will not be achieved if AWB continues to be tied to a constitution that was written for an era dominated by grower control of cooperative equity and legislation supporting the single desk” Mr Smith said.*

I could go on for some time but I will not because I think the message to all but the deaf is clear.

AWB must amend its Constitution to be competitive for wheat growers.

Wheat growers will have less choice if AWB is not competitive.

The key plank in the argument against Constitutional reform is that A class shares are required to maintain grower loyalty to AWB.

This is the only argument put forward by the dissenting Directors statement in the Notice of Meeting to shareholders.

There is simply no evidence to sustain this claim.

Indeed, research conducted for AWB by IPSOS Consultants – Australia’s leading survey company – found the opposite.

The IPSOS research undermines claims that the retention of A class shares as part of a dual class share holding structure are essential to maintain grower loyalty in the new deregulated wheat export market.

*“A class shares do not factor into grower decisions on whether to do business with AWB versus competitors, even among advocates of A class shares.”*

*“Price per tonne is the primary factor when choosing who to do business with any grain marketer. Reliability and security of payment are also extremely important factors.”*

*”If AWB does not offer a good price or maintain security of payment, then growers will turn to other buyers and distributors that will give them what they want.”*

The simple message from IPSOS, which backs up everything that AWB and others in the grains industry have been saying is that Australian wheat growers will make their grain marketing decisions based on four key factors: price and incentives, security of payment and service

AWB must amend its Constitution if it is to achieve these four things for wheat growers in the deregulated export market.

There is simply no avoiding this harsh fact of life under the new wheat export marketing arrangements.

The Board understands the enormous change and challenge that this presents to the grower community. That’s why we have moved to accommodate some of the issues that have been raised with us.

These include

- A clause to include in the new constitution an obligation to continue to be in the business of grain trading
- A clause to ensure a balanced Board with at least 2 directors to have commercial agricultural experience
- The retention of the 10% shareholder cap whilst the company is in transition
- A commitment to establish a grower advisory council to ensure a continuing strong grower input in the operations of the company.

Let me be clear - a no vote will actually hurt AWB and wheat growers. It will not put one extra cent in the pockets of grain growers.

Only a yes vote will help AWB and wheat growers.

Ladies and Gentlemen,

This is not a debate about agripolitics – this is a proposal to ensure a strong commercial future and an ability to deliver our commercial objectives in the interests of all our stakeholders.

This is not a debate about the future of one or more individuals – this is a proposal that delivers the best outcome. Strong leaders are prepared to vote themselves out of existence.

This is not a debate entrenching positions – this is about bringing the governance of this company in to alignment with best practice.

This proposal is about being able to have access to capital, having an enthusiastic and incentivised management working with the Board to deliver on our strategy.

This is not a debate about the past – this is all about the future.

If we are backward looking, then by definition we have our backs turned on the future.

I implore you to look to the future, and ensure that AWB is a strong part of that future with you.

I would now like to hand over to Gordon Davis to present some of the slides that he showed to wheat growers and shareholders on his recent road show.

Gordon.....

Thank you Gordon.

It is clear from Gordon's presentation that a yes vote is vital for AWB to succeed in the future.

A no vote will only be an anchor weighing AWB down as it tries to compete with bulk handling companies and multinational traders in the new deregulated wheat export market.

That is the simple choice that faces shareholders.

I will now ask for questions or comments from the floor before we proceed to the resolutions.