

This is an important document and requires your immediate attention.

You should read it in its entirety before deciding whether or not to vote in favour of the Scheme.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

# Scheme Booklet

AWB Limited

ABN 99 081 890 459

For a scheme of arrangement between AWB and the holders of AWB Shares in relation to the proposed acquisition of AWB by Agrium Inc.

# VOTE YES

Your directors unanimously recommend that you vote in favour of the Scheme and the Constitutional Amendments, in the absence of a superior proposal.

# Important notices

## NATURE OF THIS DOCUMENT

This Scheme Booklet provides AWB Shareholders with information about the proposed acquisition of AWB by Agrium.

If you have sold all of your AWB Shares, please ignore this booklet.

## DEFINED TERMS

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 11 of this Scheme Booklet.

## NO INVESTMENT ADVICE

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read the Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

## REGULATORY INFORMATION

This document is the explanatory statement for the scheme of arrangement between AWB and the holders of its fully paid ordinary shares as at the Scheme Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to AWB Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

## IMPORTANT NOTICE ASSOCIATED WITH COURT ORDER UNDER SECTION 411(1) OF THE CORPORATIONS ACT 2001

The fact that under section 411(1) of the Corporations Act 2001 the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notices of the meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter members must reach their own decision); or
- (b) has prepared, or is responsible for, the content of the explanatory statement.

## DISCLAIMER AS TO FORWARD-LOOKING STATEMENTS

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as “believe”, “aim”, “expect”, “anticipate”, “intending”, “foreseeing”, “likely”, “should”, “planned”, “may”, “estimate”, “potential”, or other similar words. Similarly, statements that describe AWB’s or Agrium’s objectives, plans, goals or expectations are or may be forward-looking statements.

The statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of AWB’s operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of AWB are subject to various risks that are summarised in this Scheme Booklet and which may be beyond the control of AWB and/or Agrium. AWB Shareholders should note that the historical financial performance of AWB is no assurance of future financial performance of AWB (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which AWB operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of AWB following implementation

of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Any forward-looking statements included in the AWB Information have been made on reasonable grounds. Although AWB believes that the views reflected in any forward-looking statements included in the AWB Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Any forward-looking statements included in the Agrium Information have been made on reasonable grounds. Although Agrium believes that the views reflected in any forward-looking statements included in the Agrium Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of AWB, Agrium, AWB’s officers, Agrium’s officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

You should review all of the information in this Scheme Booklet carefully. Section 1 sets out the reasons why you should vote in favour of the Scheme and section 2 sets out the disadvantages and risks of the Scheme and the Constitutional Amendments.

All subsequent written and oral forward-looking statements attributable to AWB or Agrium or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, AWB and Agrium do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

## RESPONSIBILITY STATEMENT

AWB has been solely responsible for preparing the AWB Information. The information concerning AWB and the intentions, views and opinions of AWB and the AWB Directors contained in this Scheme Booklet has been prepared by AWB and the AWB Directors and is the responsibility of AWB. Agrium and Agrium’s directors and officers do not assume any responsibility for the accuracy or completeness of any such AWB information.

Agrium has been solely responsible for preparing the Agrium Information. The information concerning Agrium and the intentions, views and opinions of Agrium contained in this Scheme Booklet has been prepared by Agrium and is the responsibility of Agrium. AWB and AWB’s Directors and officers do not assume any responsibility for the accuracy or completeness of any such Agrium Information.

Lonergan Edwards & Associates Limited has prepared the Independent Expert’s Report in relation to the Scheme and takes responsibility for that report. The Independent Expert’s Report is set out in Annexure A.

Computershare Investor Services Pty Ltd has had no involvement in the preparation of any part of the Scheme Booklet other than being named as the AWB Share Registry. Computershare Investor Services Pty Ltd has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Scheme Booklet.

## PRIVACY

AWB and Agrium may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of AWB Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting or the Extraordinary General Meeting. The primary purpose of the collection of personal information is to assist AWB and Agrium to conduct the Scheme Meeting, the Extraordinary General Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the AWB Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of AWB and Agrium, and AWB and Agrium’s advisors and service providers. AWB Shareholders have certain rights to access personal information that has been collected. AWB Shareholders should contact the AWB Registry in the first instance, if they wish to access their personal information. AWB Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

## DATE OF THIS SCHEME BOOKLET

This Scheme Booklet is dated 7 October 2010.

# Letter from the Chairman of AWB

7 October 2010

Dear Shareholder

On 20 August 2010, AWB Limited announced that it had entered into a scheme implementation deed with Agrium Inc., under which it is proposed Agrium will acquire all of the issued capital of AWB via a scheme of arrangement, subject to regulatory and shareholder approval. If the Scheme is approved and implemented, AWB Shareholders will receive a cash payment of \$1.50 per AWB Share.

This will either be:

- a payment of \$1.50 cash per AWB Share; or
- subject to receipt of a favourable Australian Taxation Office ruling<sup>1</sup> and the directors of AWB determining a Special Dividend be paid, \$1.50 cash per AWB Share, less the cash amount of the Special Dividend, which would be up to \$0.20 per share and fully franked.

The sum of \$1.50 represents a:

- 57% premium to AWB's closing share price on 29 July 2010 – the day prior to the GrainCorp merger proposal announcement;
- 37% premium to AWB's closing price on 13 August 2010 – the day prior to the announcement of the Agrium proposal; and
- 49% premium to the 6 month volume weighted average price prior to the announcement of the Agrium proposal.

This Scheme Booklet sets out important information regarding the proposed Scheme and a proposed amendment to AWB's Constitution to remove the 10% ownership cap to enable the Scheme to be implemented.

## DIRECTORS' RECOMMENDATION

In the absence of a superior proposal, your directors unanimously recommend shareholders vote in favour of the Scheme and the Constitutional Amendments and intend to vote in favour of all resolutions for all shares they hold or control.

Your directors consider that the Scheme is likely to deliver higher value and greater certainty to AWB Shareholders than other available alternatives including the previously announced merger with GrainCorp, AWB continuing as a stand alone entity, divesting certain businesses or independently pursuing acquisition targets.

Your directors have unanimously formed the view that the Scheme is in the best interests of AWB Shareholders for the following reasons:

- the Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders in the absence of a superior proposal;
- the proposed consideration of \$1.50 per AWB Share represents a significant premium to recent trading prices on the ASX; and
- the Scheme represents an opportunity for AWB Shareholders to realise certain cash value for their shares and is superior to other strategic options available to AWB.

## INDEPENDENT EXPERT

Your directors appointed Lonergan Edwards & Associates Limited as the Independent Expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders, in the absence of a superior proposal. A complete copy of the Independent Expert's Report is included in Annexure A of this Scheme Booklet.

## HOW TO VOTE

The Scheme requires court approval and the approval of AWB Shareholders at a Scheme Meeting to be held at 10.00am on 16 November 2010 at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne. The Scheme is also subject to a number of conditions (including AWB Shareholders' approval of the removal of the 10% shareholder ownership cap at a separate meeting to be held on the same day as the Scheme Meeting). These conditions are summarised in section 5.7 of the Scheme Booklet.

Please read this Scheme Booklet carefully as it contains important information and will assist you in making an informed decision on how to vote.

Your vote is important and I encourage you to vote by attending the Scheme Meeting and Extraordinary General Meeting or alternatively by completing the direct vote/proxy form accompanying this Scheme Booklet or by voting online.

## FURTHER INFORMATION

If you require any further information, please call the Shareholder Information Line on 1800 810 032 (within Australia) or +61 3 9415 4393 (outside Australia).

Your directors unanimously recommend shareholders vote in favour of the Scheme and the Constitutional Amendments in the absence of a superior proposal.



Yours sincerely

**Peter Polson**  
Chairman  
AWB Limited



<sup>1</sup> There is no certainty that the ATO will issue a favourable ruling. AWB will make an announcement to ASX when it knows the ATO's ruling.



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# Key dates

Date of this Scheme Booklet	7 October 2010
Latest date and time for receipt of direct votes, proxy forms or powers of attorney for the Scheme Meeting and the Extraordinary General Meeting	2.00pm (Melbourne time) on 14 November 2010
Time and date for determining eligibility to vote at the Scheme Meeting and Extraordinary General Meeting	7.00pm (Melbourne time) on 14 November 2010
Scheme Meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne	10.00am (Melbourne time) on 16 November 2010
Extraordinary General Meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne	11.00am (Melbourne time) on 16 November 2010 or immediately following the conclusion of the Scheme Meeting (whichever is later)
<b>If the Scheme is agreed to by AWB Shareholders:</b>	
Special Dividend determined*	16 November 2010
Second Court Date for approval of the Scheme	18 November 2010
Effective Date Court order lodged with ASIC and announcement to ASX Last day of trading in AWB Shares – AWB Shares suspended from trading on ASX from close of trading on ASX	19 November 2010
Special Dividend Record Date*	7.00pm (Melbourne time) on 25 November 2010
Payment of Special Dividend*	30 November 2010
Scheme Record Date for Scheme Consideration	5.00pm (Melbourne time) on 1 December 2010
Implementation Date Payment of Scheme Consideration to Scheme Shareholders	3 December 2010

\*Subject to the receipt of a favourable ATO ruling and subject to the determination of the AWB Board.

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other Regulatory Authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on AWB's website at [www.awb.com.au](http://www.awb.com.au).

All references to time in this Scheme Booklet are references to Melbourne time unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

# 1.

## Why you should vote in favour



1. The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders
2. The proposed consideration of \$1.50 per AWB Share represents a significant premium to trading prices on the ASX prior to the announcement of the Agrium proposal
3. Since the announcement of the Scheme, no superior proposal has emerged
4. The proposed consideration provides all cash consideration and represents a fair and reasonable offer for AWB Shares, thereby removing the risks and uncertainties of remaining an AWB Shareholder
5. No brokerage or stamp duty will be payable on the transfer of your AWB Shares under the Scheme
6. AWB's share price may fall if the Scheme is not implemented



## 1.1 Directors' Recommendation

The AWB Directors unanimously recommend that, in the absence of a superior proposal, AWB Shareholders vote in favour of the Scheme at the Scheme Meeting and the Constitutional Amendments at the Extraordinary General Meeting. The Directors unanimously believe that, for the reasons set out below, the Scheme is in the best interests of AWB Shareholders.

AWB Directors consider that the Scheme is likely to deliver higher value and greater certainty to AWB Shareholders than other alternatives including the previously announced merger with GrainCorp, AWB continuing as a stand alone entity, divesting certain businesses or independently pursuing acquisition targets.

Each AWB Director who holds or controls AWB Shares intends to vote in favour of the Scheme, and the Constitutional Amendments, in the absence of a superior proposal.

## 1.2 Reasons to vote in favour

You should read this Scheme Booklet in full before deciding how to vote.

The Scheme has a number of advantages, disadvantages and risks, which may affect AWB Shareholders in different ways depending on their individual circumstances. AWB Shareholders should seek professional advice on their particular circumstances, as appropriate. This section should be read in conjunction with section 2 below which sets out the main disadvantages and risks associated with the Scheme and the Constitutional Amendments.

The AWB Directors have unanimously formed the conclusion that the Scheme is in the best interests of AWB Shareholders in the absence of a superior proposal for the reasons set out below:

### 1. The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders

The AWB Directors appointed Lonergan Edwards & Associates Limited to prepare an Independent Expert's Report including an opinion as to whether the Scheme is in the best interests of AWB Shareholders.

The Independent Expert has concluded the Scheme is in the best interests of AWB Shareholders in the absence of a superior proposal. The basis for this conclusion is that the Scheme is fair and reasonable, with the proposed consideration of \$1.50 per AWB Share being at the upper end of the fair market valuation range of \$1.26–\$1.52 per AWB Share.

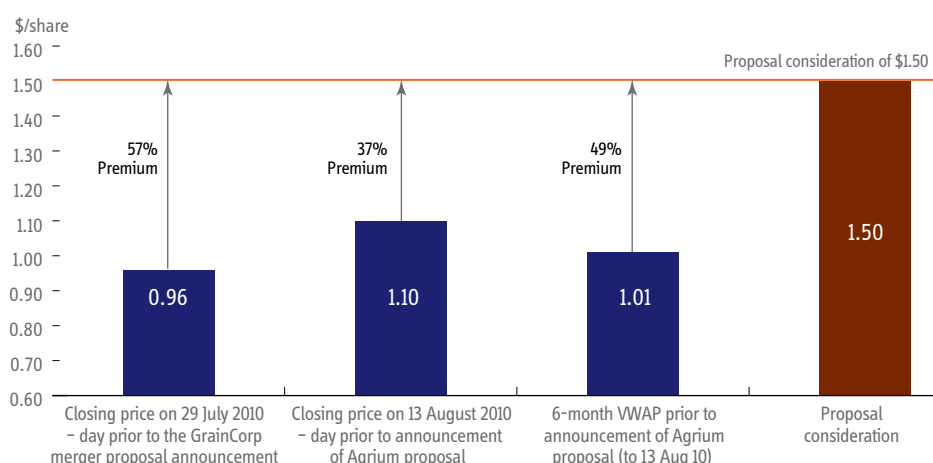
A complete copy of the Independent Expert's Report is included as Annexure A of this Scheme Booklet and AWB Directors encourage AWB Shareholders to read the report in full.

### 2. The proposed consideration of \$1.50 per AWB Share represents a significant premium to trading prices on the ASX prior to the announcement of the Agrium proposal as outlined below

The proposed consideration of \$1.50 per AWB Share represents a:

- 57% premium to AWB's closing share price on 29 July 2010 – the day prior to the GrainCorp merger proposal announcement;
- 37% premium to AWB's closing prices on 13 August 2010 – the day prior to the announcement of the Agrium proposal; and
- 49% premium to the 6 month volume weighted average price prior to the announcement of the Agrium proposal.

The graph below illustrates the premium being received by AWB Shareholders relative to AWB's trading prices on the ASX prior to the announcement of the proposed Acquisition by Agrium.





### 3. Since the announcement of the Scheme, no superior proposal has emerged

Since the announcement of the execution of the Scheme Implementation Deed on 20 August 2010 and up to the date of this Scheme Booklet, no superior proposal has emerged.

The AWB Board considers that the Scheme will deliver greater benefits to AWB Shareholders than any other alternatives currently available, including continuing as a stand alone entity.

### 4. The proposed consideration provides all cash consideration and represents a fair and reasonable offer for AWB Shares, thereby removing the risks and uncertainties of remaining an AWB Shareholder

The proposed consideration offered to AWB Shareholders is 100% cash.

If the Scheme becomes Effective, AWB Shareholders will receive \$1.50 in cash per AWB Share.

The Scheme provides an opportunity for AWB Shareholders to sell their AWB Shares and represents a fair and reasonable offer. The certainty of the all cash proposed consideration should be compared against the risks and the uncertainties of remaining an AWB Shareholder, which include, but are not limited to the risks set out in section 6.5.

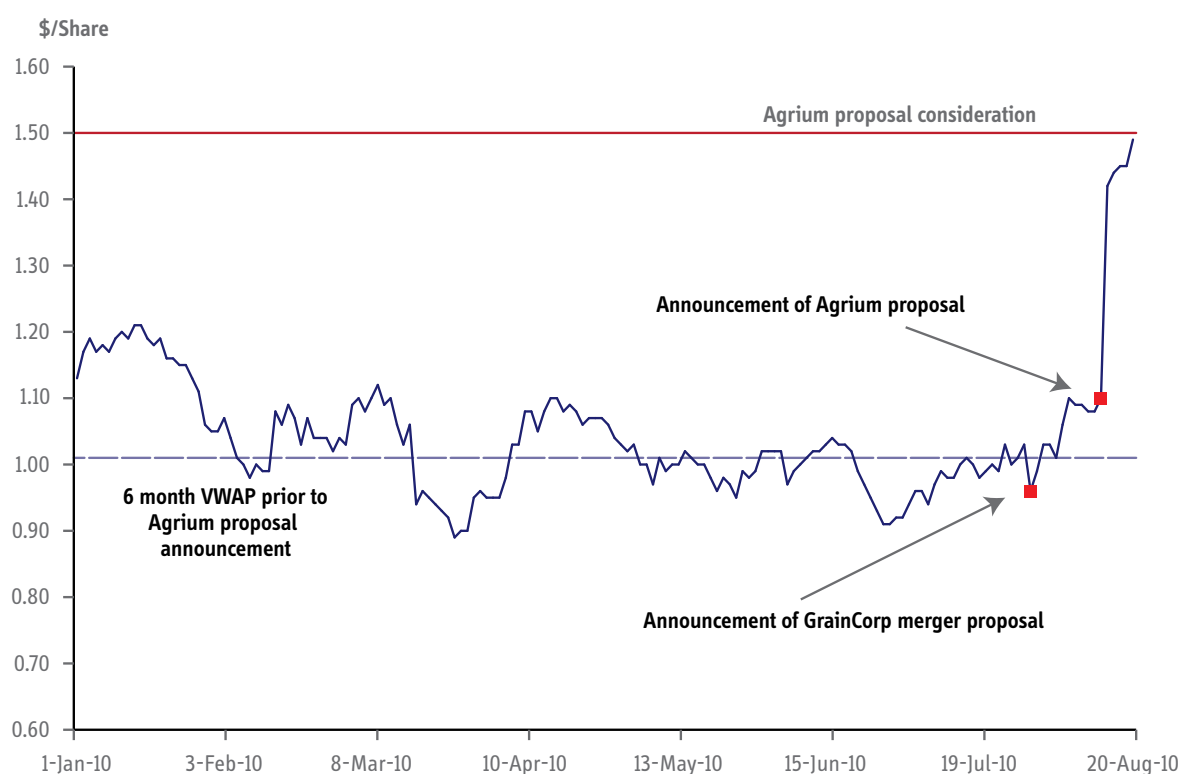
### 5. No brokerage or stamp duty will be payable on the transfer of your AWB Shares under the Scheme

You will not incur any brokerage or stamp duty on the transfer of your AWB Shares to Agrium pursuant to the Scheme.

### 6. AWB's share price may fall if the Scheme is not implemented

If the Scheme is not implemented, AWB Shares will continue to remain quoted on the ASX. If the Scheme does not become Effective, it is possible that the price at which AWB Shares trade, will fall in the absence of an alternative proposal emerging which is similar or superior to the Scheme. On 13 August 2010, the trading day prior to the announcement of Agrium's proposal, AWB Shares closed at \$1.095.

#### AWB SHARE TRADING DURING 2010



# 2.

## Disadvantages and risks of the Scheme and the Constitutional Amendments

1. You may disagree with the AWB Board and the Independent Expert and believe that the Scheme is not in your best interests
2. If the Scheme proceeds, you will no longer be an AWB Shareholder and you will not participate in any potential upside that may result from being a shareholder in AWB
3. The tax consequences of the Scheme for you may not suit your financial position
4. Possibility of a superior proposal emerging
5. Maintain your investment profile

Although your AWB Board recommends that you vote in favour of the Scheme and the Constitutional Amendments (in the absence of a superior proposal) and the Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders, you may be influenced by other factors, including those set out here, to vote against the Scheme.

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## **1. You may disagree with the AWB Board and the Independent Expert and believe that the Scheme is not in your best interests**

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Despite the view of the AWB Board and the Independent Expert, you may believe that the Scheme is not in the best interests of AWB Shareholders or not in your individual interest.

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## **2. If the Scheme proceeds, you will no longer be an AWB Shareholder and you will not participate in any potential upside that may result from being a shareholder in AWB**

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If the Scheme is implemented, you will no longer be an AWB Shareholder. This will mean that you will not participate in any potential upside that may result from being an AWB Shareholder. This may include the right to share in upside potential in AWB's business and any potential future dividends on AWB Shares. You will also cease to have the right to influence the future direction of AWB through your voting rights as an AWB Shareholder.

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## **3. The tax consequences of the Scheme for you may not suit your financial position**

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Implementation of the Scheme may trigger taxation consequences for AWB Shareholders. In particular, you may realise a capital gain to the extent the proposed consideration received by you exceeds the tax cost base of your AWB Shares or a capital loss to the extent the proposed consideration received by you is less than the tax cost base of your AWB Shares. AWB Shareholders should read the taxation implications outlined in section 9 and seek professional taxation advice with respect to their individual tax situation.

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## **4. Possibility of a superior proposal emerging**

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You may believe that there is potential for a superior proposal to be made in the foreseeable future. As at the date of this Scheme Booklet, no superior proposal has been received by the AWB Directors.

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## **5. Maintain your investment profile**

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You may wish to maintain your investment in AWB in order to have an investment in a publicly listed company with the specific characteristics of AWB in terms of industry, operational profile, size, capital structure and potential dividend stream. Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. AWB Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of AWB and they may incur transaction costs in undertaking any new investment.



# 3.

## Frequently asked questions



Question	Answer
<b>What is the Scheme?</b>	<p>The Scheme is a scheme of arrangement between AWB and AWB Shareholders at the Scheme Record Date. The Scheme will effect the acquisition of AWB by Agrium Australia, a wholly owned subsidiary of Agrium. If the Scheme is approved and implemented, AWB Shareholders will receive a cash payment of \$1.50 per AWB Share.</p> <p>This will either be:</p> <ul style="list-style-type: none"><li>• a payment of \$1.50 cash per AWB Share; or</li><li>• subject to receipt of a favourable ATO ruling<sup>2</sup> and the directors of AWB determining a Special Dividend be paid, \$1.50 cash per AWB Share, less the cash amount of the Special Dividend, which would be up to \$0.20 per share and fully franked.</li></ul> <p>A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire another company.</p>
<b>What are the Constitutional Amendments?</b>	<p>The Constitutional Amendments comprise two proposed amendments to AWB's Constitution. The proposed amendments relate to the removal of the 10% shareholding cap (which is necessary for the Scheme to proceed) and enabling AWB to pay dividends from any source permitted by law (which is necessary for the Special Dividend to be paid).</p>
<b>What do the AWB Directors recommend?</b>	<p>The AWB Directors unanimously recommend that AWB Shareholders vote in favour of the Scheme and the Constitutional Amendments, in the absence of a superior proposal.</p>

<sup>2</sup> There is no certainty that the ATO will issue a favourable ruling. AWB will make an announcement to ASX when it knows the ATO's ruling.

Question	Answer
<b>What is the opinion of the Independent Expert?</b>	The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of AWB Shareholders in the absence of a superior proposal.
<b>Who is Agrium?</b>	Agrium is a leading global producer and supplier of agricultural products and services. Agrium is a public company incorporated in Canada and is listed on the Toronto Stock Exchange and the New York Stock Exchange. Further information in relation to Agrium is set out in section 7.
<b>When and where will the Scheme Meeting and Extraordinary General Meeting be held?</b>	The Scheme Meeting will be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010 at 10.00am (Melbourne time) and the Extraordinary General Meeting will be held at 11.00am (Melbourne time) or immediately following the Scheme Meeting (whichever is later).
<b>What vote is required to approve the Scheme and the Constitutional Amendments?</b>	<p>For the Scheme to proceed, the Scheme Resolution must be passed by:</p> <ul style="list-style-type: none"> <li>• a majority in number of AWB Shareholders who vote on the Scheme Resolution; and</li> <li>• at least 75% of the votes cast on the Scheme Resolution.</li> </ul> <p>The court has the discretion to waive the first of these two requirements if it considers appropriate to do so.</p> <p>For the amendments to AWB's Constitution to be effective, each resolution must be passed by at least 75% of the votes cast on the resolution.</p>
<b>How do I vote if I am not able to attend the meetings?</b>	<p>You may complete the enclosed personalised Proxy/Voting Form in accordance with the instructions and return it in the reply paid envelope enclosed or by facsimile.</p> <p>You may also lodge a direct vote or appoint a proxy online by visiting <a href="http://www.awb.com.au">www.awb.com.au</a> and following the online instructions. You will need your shareholder registration details.</p> <p>The deadline for lodging your Proxy/Voting Form or voting online is 2.00pm (Melbourne time) on 14 November 2010.</p>
<b>Am I entitled to vote?</b>	Each AWB Shareholder who is registered on the AWB Register at 7.00pm (Melbourne) time on 14 November 2010 is entitled to attend and vote at the Scheme Meeting and the Extraordinary General Meeting.
<b>When will I be paid?</b>	<p>If a Special Dividend is paid, payment is expected to be made on or about 30 November 2010.</p> <p>Payment of the Scheme Consideration is expected to be made on or about 3 December 2010.</p>
<b>How will I be paid?</b>	All payments will be made by direct deposit into your nominated bank account, as advised to the AWB Registry as at the applicable record date. If you have not nominated a bank account, payment will be by cheque.
<b>Are there any conditions to be satisfied?</b>	The Scheme must be approved by the required shareholder majorities and the Court. The Scheme is also subject to a number of conditions discussed at sections 5.7 and 8.1 of this Scheme Booklet which include regulatory approvals and removal of the 10% shareholding cap. These conditions must be satisfied or waived for the Scheme to proceed.
<b>When will the result of the Scheme Meeting be known?</b>	The result of the Scheme Meeting and the Extraordinary General Meeting will be available shortly after the conclusion of the meetings and will be announced to ASX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to the approval of the Court.

# 4.

## How to vote



### 4.1 Your vote is important

For the Scheme to proceed, it is necessary that sufficient AWB Shareholders vote in favour of the Scheme and the amendment to AWB's Constitution to remove the 10% shareholding cap. In addition, for the Special Dividend to be paid, AWB's Constitution will need to be amended by special resolution to allow AWB to pay a dividend from any source permitted by law.

If you are registered as an AWB Shareholder at 7.00pm (Melbourne time) on 14 November 2010, you will be entitled to vote on these resolutions.

### 4.2 Notices of Meeting

The Scheme will be voted on by AWB Shareholders at a meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010, commencing at 10.00am (Melbourne time).

The Notice of Scheme Meeting is contained in Annexure D to this Scheme Booklet.

The Constitutional Amendments will be voted on by AWB Shareholders at a meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010, commencing at 11.00am (Melbourne time) or immediately following the conclusion of the Scheme Meeting to be held on the same day, (whichever is later).

The Notice of Extraordinary General Meeting is contained in Annexure E to this Scheme Booklet.



## 4.3 Procedure

You may vote on the Scheme by attending the Scheme Meeting in person, or by direct vote, proxy, attorney or, in the case of a corporation which is an AWB Shareholder, by corporate representative.

You may vote on the Constitutional Amendments by attending the Extraordinary General Meeting in person, or by direct vote, proxy, attorney or, in the case of a corporation which is an AWB Shareholder by corporate representative.

Further information on the method of voting is contained in the Notice of Scheme Meeting attached at Annexure D and the Notice of Extraordinary General Meeting attached at Annexure E.

If you are in favour of the Scheme, you should vote in favour of the removal of the 10% shareholding cap as well as the Scheme.

**The Scheme will not proceed unless both the Scheme and the removal of the 10% shareholding cap are approved by AWB Shareholders.**

### (a) Voting in person

To vote in person at the Scheme Meeting or at the Extraordinary General Meeting, you must attend the meeting (see section 4.2).

An AWB Shareholder who wishes to attend and vote in person will be admitted to the meeting and given a voting card at the point of entry to the meeting on disclosing their name and address.

### (b) Voting if you are not attending the meetings

To lodge a direct vote or appoint a proxy to vote on your behalf in respect of the Scheme and/or the Constitutional Amendments, you may complete the enclosed personalised Proxy/Voting Form in accordance with the instructions and return it in the reply paid envelope enclosed or by facsimile.

You may also lodge a direct vote or appoint a proxy online by visiting [www.awb.com.au](http://www.awb.com.au) and following the online instructions. You will need your shareholder registration details. If your direct vote or proxy is signed by an attorney, please also enclose the authority under which the direct vote or proxy is signed (or a certified copy of the authority).

**Proxy/Voting Forms and powers of attorney must be received by the AWB Registry (whether in person, by mail, facsimile or internet) by no later than 2.00pm (Melbourne time) on 14 November 2010** (or if the Scheme Meeting or the Extraordinary General Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting or Extraordinary General Meeting (as applicable)). Proxy/Voting Forms and powers of attorney received after this time will not be effective.

Information setting out how you may vote by direct vote, or appointment of a proxy or attorney is contained in the Notice of Scheme Meeting and Notice of Extraordinary General Meeting.

## 4.4 Voting entitlement

Each AWB Shareholder who is registered on the AWB Register at 7.00pm (Melbourne time) on 14 November 2010 is entitled to attend and vote at the Scheme Meeting and the Extraordinary General Meeting, in person or by proxy or attorney or, in the case of a corporation which is an AWB Shareholder, by its representative appointed in accordance with the Corporations Act. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting and the Extraordinary General Meeting.

Voting is not compulsory.

In the case of AWB Shares held by joint holders, only one of the joint shareholders is entitled to vote. If more than one shareholder votes in respect of jointly held AWB Shares, only the vote of the AWB Shareholder whose name appears first in the Register will be counted.

For further information, you can call the AWB Information Line on 1800 810 032 (within Australia) or +61 3 9415 4393 (outside Australia).



# 5. Summary of the Scheme

## 5.1 Background

On 20 August 2010, AWB and Agrium announced a proposal for the acquisition of AWB by Agrium by way of a scheme of arrangement between AWB and its shareholders. If the Scheme proceeds:

- all AWB Shares will be transferred to Agrium;
- all AWB Shareholders as at the Scheme Record Date (whether or not they voted for or against the Scheme and the Constitutional Amendments) will receive the Scheme Consideration and, if applicable, the Special Dividend; and
- AWB will be de-listed from ASX and will become a wholly-owned subsidiary of Agrium.

This Scheme Booklet contains important information that the AWB Board believes AWB Shareholders should consider in deciding whether or not to vote in favour of the Scheme.

## 5.2 What you will receive

If the Scheme is approved and implemented, AWB Shareholders will receive a cash payment of \$1.50 per AWB Share.

This will either be:

- (a) a payment of \$1.50 cash per AWB Share; or
- (b) subject to receipt of a favourable ATO ruling and the AWB Directors determining a Special Dividend be paid, \$1.50 cash per AWB Share, less the cash amount of the Special Dividend, which would be up to \$0.20 per share and fully franked.

All payments will be made by direct deposit into your nominated bank account, as advised to the AWB Registry as at the applicable record date. If you have not nominated a bank account, payment will be by cheque.

If a Special Dividend is determined, payment is currently expected to be made on 30 November 2010.

Payment of the Scheme Consideration will be made on the Implementation Date, currently expected to be 3 December 2010.

If a shareholder does not have a registered address or AWB considers the shareholder is not known at its registered address and no bank account has been nominated, payments due to the shareholder will be held by AWB until claimed or applied under laws dealing with unclaimed moneys.

## 5.3 What are the Constitutional Amendments?

The Constitutional Amendments comprise two proposed amendments to the AWB Constitution.

### (a) Removal of the 10% shareholding cap

AWB's Constitution limits the amount of issued share capital in AWB that any one shareholder in AWB (together with their associates) can hold, to 10% of AWB's issued share capital. It is proposed that, conditional on the Scheme becoming Effective, this cap be removed in order for the Scheme to proceed.

The removal of the 10% shareholding cap will only take effect if the Scheme proceeds.

### (b) Payment of dividends

AWB's Constitution provides that dividends can only be paid out of profits. As the law now allows dividends to be paid from sources other than profits, it is proposed that AWB's Constitution be amended to permit AWB to pay a dividend from any available source permitted by law.

This amendment will enable the AWB Board to declare a Special Dividend. However, even if this amendment is made, the Special Dividend may not be determined.

If this amendment is approved by shareholders, it will still take effect whether or not the Scheme proceeds.

#### How to vote

If you are in favour of the Scheme, you should vote in favour of removing the 10% shareholding cap as well as the Scheme, as the Scheme cannot proceed if the shareholding cap remains.

If you are in favour of the Special Dividend, you should vote in favour of the amendment to allow dividends to be paid out of sources other than profits, as the Special Dividend cannot be paid without that amendment.

The Notice of Meeting for the Extraordinary General Meeting is contained in Annexure E to this Scheme Booklet. The Extraordinary General Meeting will be held at 11.00am on 16 November 2010 or immediately following the Scheme Meeting (whichever is later).

## 5.4 Recommendation and voting intentions of AWB Directors

The AWB Directors unanimously recommend that, in the absence of a superior proposal, AWB Shareholders vote in favour of the Scheme at the Scheme Meeting and in favour of the Constitutional Amendments at the Extraordinary General Meeting.

Each AWB Director intends to vote in favour of the Scheme and the Constitutional Amendments, in the absence of a superior proposal.

The AWB Directors believe that the reasons for AWB Shareholders to vote in favour of the Scheme outweigh the reasons to vote against the Scheme.

In making their recommendation, the AWB Directors have considered the advantages and disadvantages and risks of the Scheme and the Constitutional Amendments and in particular, the following:

- the reasons for AWB Shareholders to vote in favour of the Scheme and the Constitutional Amendments, as set out in section 1;

- the potential disadvantages and risks of the Scheme and the Constitutional Amendments, as set out in section 2;
- the risks associated with AWB's business, as set out in section 6.5; and
- the report of the Independent Expert, which is set out in Annexure A.

In considering whether to vote in favour of the Scheme, your directors encourage you to:

- read the whole of this Scheme Booklet;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- obtain financial advice from your broker or financial adviser on the Scheme and obtain taxation advice on the effect of the Scheme becoming Effective.

The interests of AWB Directors are disclosed in section 10.1 of this Scheme Booklet.

If a superior proposal emerges, this will be announced to the ASX and the AWB Directors will carefully reconsider the Scheme and advise you of their recommendation.

## 5.5 Independent Expert's conclusions

The AWB Directors commissioned the Independent Expert, Lonergan Edwards & Associates Limited, to prepare a report on the Scheme to ascertain whether the transaction contemplated by the Scheme is in the best interest of Scheme Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and is in the best interests of Scheme Shareholders in the absence of a superior proposal.

## 5.6 Other alternatives considered

Before deciding to recommend the Scheme, the AWB Board considered a range of alternatives.

These alternatives have included:

- (1) the potential sale and/or joint venture of all or part of AWB's Commodity Management business with various parties, including with Gavilon LLC;
- (2) the previously announced proposed merger with GrainCorp Limited;
- (3) pursuing various acquisition opportunities; and
- (4) continuing as a standalone entity.

These alternatives were evaluated by the AWB Board on the basis of maximising shareholder value, addressing the challenges facing AWB, the certainty of outcome and the implementation timeframe.

The AWB Board considered that the Scheme provides the best overall outcome available for shareholders as it offers the most value and certainty for shareholders from the available alternatives.



## 5.7 Conditions of the Scheme

The Scheme is subject to a number of conditions precedent, including but not limited to:

- (1) agreement to the Scheme by AWB Shareholders by the requisite majorities;
- (2) agreement to the removal of the 10% shareholding cap by AWB Shareholders by special resolution;
- (3) no objection under foreign investment laws in Australia and New Zealand to the proposed acquisition by Agrium of AWB;
- (4) approval of the Scheme by the Court;
- (5) no occurrence of an AWB Prescribed Occurrence between the date of the Scheme Implementation Deed (being 20 August 2010) and 8.00am (Melbourne time) on the Second Court Date; and
- (6) the representations and warranties made by AWB and Agrium in the Scheme Implementation Deed being true and correct in all material respects as at the date of the Scheme Implementation Deed (being 20 August 2010) and at 8.00am (Melbourne time) on the Second Court Date.

The Scheme will not proceed unless all the conditions are satisfied or waived in accordance with the Scheme Implementation Deed. As stated in section 10.7, the condition precedent relating to foreign investment laws in Australia has been satisfied. Further information regarding these conditions and other conditions to the Scheme are set out in section 8.1.

As at the date of this Scheme Booklet, AWB and Agrium are not aware of any circumstances which would cause the conditions of the Scheme referred to above and set out in more detail in section 8.1 not to be satisfied.

## 5.8 If the Scheme does not proceed

If the Scheme does not proceed, AWB Shareholders will continue to hold AWB Shares.

In the absence of any alternative or competing proposal to the Acquisition, AWB will continue as a stand alone entity. AWB Shareholders will be exposed to the risks relating to AWB's business set out in section 6.5.

Depending on the reasons why the Acquisition does not proceed, AWB may be liable to pay a reimbursement fee of \$12.26 million (excluding GST) to Agrium. The AWB Directors consider the reimbursement fee to be reasonable and appropriate in amount, structure and effect. This is not payable if the Scheme does not proceed merely because AWB Shareholders do not vote in favour of the Scheme in sufficient numbers to meet the legal tests. Further information in relation to the reimbursement fee is set out in section 8.1.

Prior to the Scheme Meeting, transaction costs of approximately \$2.5 million (excluding GST) will have been incurred, or will be committed, by AWB in relation to the Acquisition. Those transaction costs have either already been paid, or will be payable by AWB regardless of whether or not the Scheme is implemented. If the Scheme does proceed, additional costs will be incurred.

## 5.9 Tax implications

The transfer of your AWB Shares pursuant to the Scheme may be a taxable transaction for you. You should seek your own professional advice regarding the individual tax consequences applicable to you. A summary of relevant taxation implications for Australian residents is contained in section 9 of this Scheme Booklet.

## 5.10 No brokerage or stamp duty

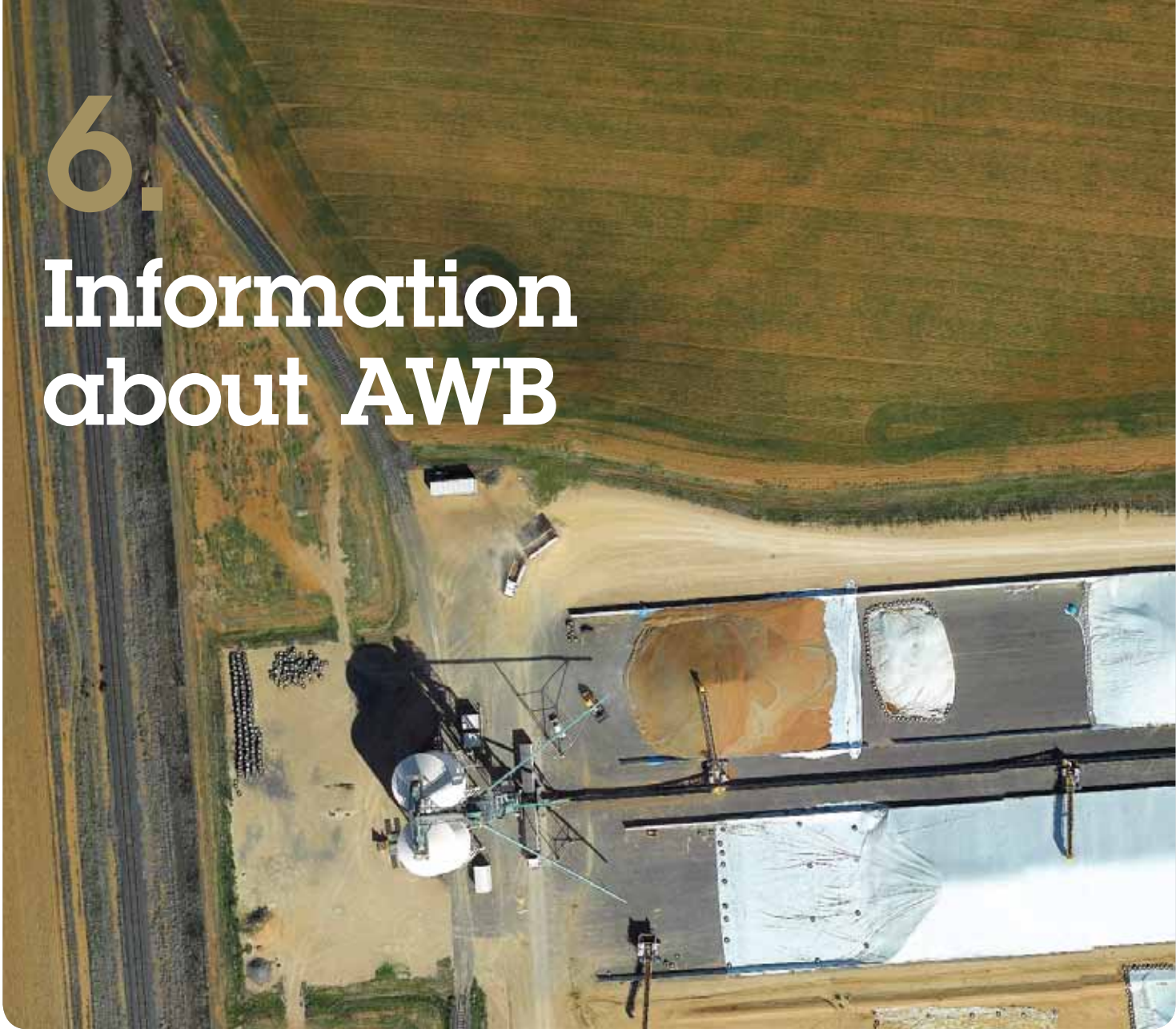
Scheme Shareholders will not incur any brokerage or stamp duty in connection with the Scheme.

## 5.11 Warranties by AWB Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to AWB and Agrium, and appointed and authorised AWB as its attorney and agent to warrant to Agrium, that all their AWB Shares (including any rights and entitlements attaching to those shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their AWB Shares to Agrium or Agrium Australia (as applicable) together with any rights attaching to those shares.

# 6.

# Information about AWB



## 6.1 Overview

AWB is one of Australia’s leading agribusinesses.

AWB employs approximately 2,000 people across points of presence in Australia, India, Switzerland, Ukraine, Singapore, People’s Republic of China and Japan with an extensive customer base both domestically and offshore.

AWB currently operates two core business divisions – Rural Services (trading as Landmark) and Commodity Management. Through these divisions, AWB provides key services across the agriculture value chain, leveraging its established network of touch points with rural communities in Australia and relationships with key suppliers and customers around the world.



## 6.2 Business Division overview

### (a) Rural Services (Landmark)

Rural Services incorporates Landmark's 350 plus points of presence across Australia that offer a wide range of agribusiness needs to over 100,000 customers including merchandising, farm services, wool marketing, livestock sales, real estate agency, insurance and financial services.

Landmark is Australia's largest distributor of fertiliser and crop chemicals and brings national buying power and sourcing capabilities directly to local communities across a range of other products including water equipment, animal health and management products, seed, general merchandise and fencing.

Landmark also provides a growing range of agronomic, animal nutrition and whole farm planning advisory services, aimed at increasing the productivity, profitability and sustainability of farming enterprises.

Other services provided by Landmark include real estate agency, and through partnerships with other institutions a range of financial services including working capital loans and insurance products for on farm, business and personal needs.

Landmark also provides comprehensive livestock and wool marketing services, connecting buyers and sellers to global markets. Landmark Global Exports, a joint venture in which Landmark owns 51%, has exported over 45,000 head of cattle to Asia during the 2009/2010 AWB financial year.

In July 2006, AWB entered into a 50:50 joint venture with Fonterra Co-operative Group, to operate RD1, a New Zealand based rural retailer focused on dairy products.

Landmark also owns 50% of Australian Wool Handlers, Australia's largest wool handling and storage provider, servicing approximately two-thirds of Australia's annual wool clip.

### (b) Commodity Management

AWB's Commodity Management division has two key operating hubs – Australia and Geneva and a smaller, locally orientated business in India. To maintain regular contact into key regions, AWB has marketing representatives based in Singapore, Hong Kong and Tokyo as well as Australia.

In Australia, AWB provides services and products required to market agricultural commodities from farm gate to first stage processors, offering inland transport, storage and handling from point of origin through to domestic and export facilities, including rail and storage and handling infrastructure across Australia's eastern states.

AWB also provides pool management services and harvest finance offerings, comprising wheat and barley pool products and associated finance products for growers.

The Commodity Management division also undertakes bulk sea freight chartering and container management providing freight services to third parties who value the knowledge and skill that comes from over 60 years' experience in chartering.

The division also acquires and sells grains, pulses and oilseeds, applying AWB's farm gate origination capabilities and generating trade flows of agricultural commodities to customers around the world and enhancing margins by taking arbitrage positions, within defined risk limits, when opportunities arise in the market.

AWB India works with domestic processors to supply domestic and imported grains, pulses and oilseeds through marketing programs that are developed in collaboration with Australia and Geneva business units. Occasionally, AWB India will export grains and grain products, such as corn, wheat and soybean meal.

AWB Geneva was established in 2002 as a platform for AWB to grow its international presence and business through the trading and supply of commodities to existing and new customers. AWB Geneva's activities are grouped into the following principal activities:

- (1) **oilseeds** – focused on the marketing of oilseeds and edible oils to Asia, Europe and the Middle East;
- (2) **grain** – trading of wheat, barley and corn to the Middle East, Europe and Africa;
- (3) **trade finance** – provision of finance solutions to suppliers and customers; and
- (4) **freight** – provision of freight chartering services to AWB as well as to third party providers.

## 6.3 AWB's board of directors

The current AWB Board comprises the following persons:

- Mr Peter Polson, Chairman and Non-Executive Director;
- Mr Gordon Davis, Managing Director;
- Mr Fred Grimwade, Non-Executive Director;
- Mr Tony Howarth AO, Non-Executive Director; and
- Mr John Schmoll, Non-Executive Director.

## 6.4 AWB Shares

As at the date of this Scheme Booklet, AWB has on issue:

- (1) 817,304,356 shares; and
- (2) 6,977,311 Performance Rights.

## 6.5 Risks relating to AWB's business

There are existing risks relating to AWB's business and an investment in AWB which will continue to be relevant to AWB Shareholders if the Scheme does not become Effective. These risks include but are not limited to the risks as follows.



## GENERAL RISKS

The market price of AWB Shares and future distributions made to shareholders will be influenced by a number of factors which may include:

- (1) changes in investor sentiment and overall performance of local and international stock markets;
- (2) changes in general economic outlook in Australia and internationally;
- (3) changes in government fiscal, monetary and regulatory policies;
- (4) government or political intervention in export and import markets and the disruptions this causes to supply and demand dynamics;
- (5) changes in prevailing economic conditions including inflation, interest rates and consumer demand; and
- (6) impact of international events (e.g. geo-political incidents, pandemics, war).

## AWB SPECIFIC RISKS

### (a) Weather conditions and natural disasters

AWB is exposed to both Australian and international weather patterns and natural disasters and associated changes in agricultural activity.

Variability in weather conditions and natural disasters may impact key drivers of AWB's earnings including: crop size and quality, supply and demand, characteristics in agricultural markets, market prices for agricultural commodities, pests and farming behaviour and economic activity.

### (b) Market prices for agricultural commodities and freight

Earnings of each of AWB's business units are exposed in various ways to fluctuations in prices for agricultural commodities and freight. This includes both input prices (such as crop chemicals and fertilisers and freight) and output prices (such as grains and oilseeds). Changes in prices can impact on profitability in several ways, including on local and international demand and supply patterns, the volume of business undertaken in various different business units, the value of inventory and freight positions and related hedge instruments and the level of working capital required to fund business activities. Earnings can be impacted by changes in both the absolute level of prices, and the relative level of prices between local and international markets for similar commodities and freight.

### (c) Market dynamics and trading strategy

A portion of AWB's profit each year is generated from positional trading. While these activities are conducted within strict risk limits, their level of success relies upon the differential quality of AWB's analysis and execution and the existence, nature and timing of exogenous market factors.

Further, by their nature, the outcome of positional trades cannot be accurately forecast, nor the timing of the strategy associated with the position concluded within pre-defined accounting reporting periods, and this can lead to additional earnings variability.

### (d) Loss of accreditation

AWB's ability to export wheat is dependent on accreditation by Wheat Exports Australia. If AWB were to lose this accreditation, it would not be able to export wheat in bulk, which would significantly impact future earnings.

### (e) Strategic initiatives

AWB is currently reassessing its strategic options for HiFert. Potential transactions could include its recapitalisation and/or its eventual sale. Dependant on the chosen path, AWB's earnings could be subject to variability over time.

### (f) Winding down of Brazil operations

As previously announced, AWB is in the process of winding down its Brazil operations. AWB has provided an estimate of costs and losses associated with this process. AWB is exposed to the potential for losses to exceed this amount.

### (g) Refinancing requirements

AWB is exposed to risks relating to its ability to obtain, and the terms of, refinancing of its existing debt instruments and facilities. In the case that some or all of these facilities are refinanced, they may be on less favourable terms for AWB than is currently the case. In addition, a negative change in AWB's credit rating could, should it occur, have an adverse effect on its ability to borrow, and its cost of funds.

### (h) Impact of interest rate changes

AWB's interest cost on floating rate debt is exposed to changes in benchmark interest rates. AWB may manage its exposure to adverse fluctuations in floating interest rates by entering into interest rate hedging instruments, however the impact of interest rate hedging may be negative depending on the direction, timing and magnitude of movements in underlying rates.

### (i) Foreign exchange risk

Through its international trading activity and ownership of foreign assets, AWB is exposed to movements in foreign currencies either directly through physical assets or through hedges. The impact of exchange rate movements will vary from time to time and may be negative depending upon their direction, timing and magnitude.

### (j) Dispute and litigation risk

AWB, like any other business, is subject to the risk of becoming involved in disputes and litigation. At present, AWB is facing a number of litigation claims, and may be subject to further dispute and potential litigation. Any material or costly dispute or litigation could adversely impact AWB.

### (k) Counterparty and sovereign risk

AWB is exposed to counterparty risk as part of its normal operations. AWB enters into contracts with a number of private and public entities, including governments and governmental agencies located throughout the world. In the event of non-performance by these counterparties, there may be a negative impact on AWB.

AWB trades in a number of foreign jurisdictions, including some countries in which trade sanctions have been applied. AWB is subject to commercial risks associated with obtaining trade or other approvals from sovereign governments.



## 6.6 Material changes in AWB's financial position since 31 March 2010

The latest published financial statements of AWB are the financial statements for the half-year ended 31 March 2010, which were released to ASX on 19 May 2010. A copy is available free of charge on AWB's website ([www.awb.com.au](http://www.awb.com.au)) or by writing to the Company Secretary, AWB Limited, 380 La Trobe Street, Melbourne, Victoria, 3000.

To the knowledge of the AWB Directors, and except as disclosed elsewhere in this Scheme Booklet, the financial position of AWB has not materially changed since 31 March 2010, except that:

- (a) on 27 April 2010, AWB announced that the Federal Court approved the terms of settlement with respect to the Watson (shareholder) class action. As a result, the class action against AWB was dismissed without admission of liability by AWB. There are no outstanding conditions regarding this class action. Under the terms of the settlement, AWB has made a payment of \$39.5 million inclusive of the applicants' legal costs. This amount (which is pre-tax) was provided for as a significant item in the half-yearly accounts as at 31 March 2010; and
- (b) on 11 August 2010, when announcing the merger that was previously proposed with GrainCorp, AWB announced that:
  - (1) the anticipated profit before tax and significant items (PBT) for continuing businesses for the full year ending 30 September 2010 are expected to be within the range of \$75 million to \$95 million, compared to previous guidance of \$85 million to \$110 million;
  - (2) Landmark is expected to record a result materially higher than the prior financial year, despite challenging industry conditions, with the business expected to be the largest contributor to the group PBT; and
  - (3) within the Australian Commodity Management business, while the second half has seen some modest improvement in the Grain Marketing business, the full year result is expected to be significantly lower than the prior financial year. This is largely driven by the continuation of difficult market conditions and lower margins in wheat marketing. The remainder of the Australian Commodity Management businesses are all performing to expectations;
- (c) on 3 September 2010, AWB paid a reimbursement fee of \$8.6 million (excluding GST) to GrainCorp Limited; and
- (d) additional information is provided in the Independent Expert's Report including anticipated key business EBIT for the 12 months to 30 September 2010. For AWB Group, the anticipated profit before tax and significant items for continuing businesses for the full year ended 30 September 2010 is expected to be towards the lower end of previous guidance of \$75 million to \$95 million.

Further information regarding AWB's financial performance is set out in the Independent Expert's Report which forms Annexure A to this Scheme Booklet.

As at the date of this Scheme Booklet, AWB intends to release additional financial information for the year ended 30 September 2010 in advance of the Scheme Meeting. At this stage AWB considers that it is unlikely that this information would have any material impact on the making of a decision by AWB Shareholders in relation to the Scheme, and it will be substantially consistent with the changes in financial position since 31 March 2010, referred to above.

## 6.7 AWB Directors' intentions

The legislation requires a statement by the AWB Directors of their intentions regarding AWB's business. If the Scheme is implemented, the AWB Board will be reconstituted. It is for the reconstituted AWB Board to determine its intentions as to:

- the continuation of the business of AWB;
- any major changes, if any, to be made to the business of AWB; and
- the future employment of the present employees of AWB.

The current intentions of Agrium with respect to these matters are set out in section 7.

If the Scheme is not implemented, the AWB Directors intend to continue to review the operation of the business in the ordinary course.

## 6.8 Public information available for inspection

As a company listed on the ASX and a "disclosing entity" under the Corporations Act, AWB is subject to regular reporting and disclosure obligations. Broadly, these require AWB to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. AWB's recent announcements are available from [www.asx.com.au](http://www.asx.com.au). Further announcements concerning developments at AWB will continue to be made available on this website after the date of this Scheme Booklet.

AWB is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the AWB Directors and an audit or review report. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the AWB website [www.awb.com.au](http://www.awb.com.au).

# 7.

## Information about Agrium



The information contained in this section 7 has been prepared by Agrium. The information concerning Agrium and the intentions, views and opinions contained in this section are the responsibility of Agrium. AWB and AWB's Directors and officers do not assume any responsibility for the accuracy or completeness of this information.

### 7.1 Overview of Agrium Inc.

Agrium is a leading global producer and supplier of agricultural products and services. Agrium's operations have a strong grower customer focus and span the agricultural value chain, which means that Agrium both manufacture and distribute agricultural products, and retail agricultural products and services to growers.

Agrium is a public company incorporated in Canada and is listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE) (TSX and NYSE code: AGU). At the time of preparing this Scheme Booklet, it had a market capitalisation of approximately US\$11.5 billion and, as at 31 December 2009, Agrium had over 11,000 employees globally.

Agrium has the following major strategic business units:

- **Retail:** Agrium's retail business unit provides crop nutrients, crop protection products, seed and application and agronomy services directly to growers. The retail business is committed to helping growers optimise their crop yields and economic returns. Agrium aims to deliver to its customers the latest technologies, products and experience with a commitment to environmental responsibility. Agrium operates over 900 farm facilities in North and South America, and is the largest direct-to-grower agricultural retail operation in North America. Agrium's retail business unit operates under the names Crop Production Services in the US and Canada, and Agroservicios Pampeanos in Argentina, Uruguay and Chile;
- **Wholesale:** Agrium's wholesale business unit produces, markets and distributes the primary crop nutrients: nitrogen, phosphate and potash, to agricultural and industrial customers around the world. Agrium has over eight million tonnes of crop nutrient production capacity from operations and investments in Canada, the United States, Argentina and Egypt. Agrium's wholesale business unit also owns and operates an extensive product distribution and terminal storage network across North America and much of Europe, to enable Agrium to position product to properly service its large customer base; and

- **Agrium Advanced Technologies (AAT):** AAT produces and markets products including environmentally friendly controlled-release nutrients and micronutrients for sale to the broad-based agriculture, specialty agriculture, professional turf and ornamental plant markets worldwide. One of these products is Agrium's patented environmentally smart nitrogen which is a controlled-release fertiliser, which provides growers with both economic and environmental advantages. AAT operates across North America and holds a 19.5% interest in Hanfeng Evergreen Inc., a leading provider of fertiliser in China.

Agrium is a growth-oriented company, having completed nine acquisitions worth over US\$3.5 billion in the past five years, and continually seeks high-return investment opportunities and enhanced product development to better meet its customers' needs and add stakeholder value.

Agrium has nominated Agrium South Pacific Pty Limited (Agrium Australia), to acquire the AWB Shares pursuant to the Scheme. Agrium Australia is an indirectly wholly owned subsidiary of Agrium, is incorporated in Australia and registered in Victoria. The directors of Agrium Australia are Leslie O'Donoghue and Kevin O'Sullivan.

## 7.2 Agrium Financial Background

The summary operating results data for the fiscal year ended 31 December 2009 are derived from Agrium's audited consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (CAD GAAP). The summary financial data for the 3 months ended 30 June 2010, and 30 June 2009 are derived from Agrium's unaudited consolidated financial statements for the respective periods prepared in accordance with CAD GAAP. A copy of these financial statements can be obtained from Agrium's corporate website [www.agrium.com](http://www.agrium.com).

Historical results are not necessarily indicative of the results to be expected in the future.

	Three months ended		Fiscal year ended
	30 June 2010	30 June 2009	31 December 2009
(US\$ in millions)	(Unaudited)		(Audited)
<b>Operating results:</b>			
Net sales	4,367	4,090	9,129
Earnings before interest, income taxes and non-controlling interests	732	543	580
Net earnings	506	370	366
<b>Financial position (at end of period):</b>			
Total current assets	5,158	5,229	5,120
Total assets	9,795	9,688	9,785
Total current liabilities	2,324	2,677	2,581
Total liabilities	4,768	5,215	5,193

At 30 June 2010, there were no persons known by Agrium to be the owner, of record or beneficially, of more than 5% of its outstanding common stock.

Agrium is subject to the disclosure requirements of the Canadian Securities Administrators and in accordance with these requirements files annual and quarterly financial information and material change reports and other disclosure material with the securities commission or similar regulatory authority in each of the provinces of Canada.

Information about the Agrium Group may also be obtained from Agrium's corporate website [www.agrium.com](http://www.agrium.com).

## 7.3 Directors of Agrium

The directors of Agrium, as at the date of this Scheme Booklet, are:

- Mr Frank W. Proto – Board Chair
- Mr Michael M. Wilson – President and Chief Executive Officer
- Mr Ralph S. Cunningham – Director
- Mr Russell K. Girling – Director
- Dr Susan A. Henry – Director
- Mr Russell J. Horner – Director
- Mr David J. Lesar – Director
- Mr John E. Lowe – Director
- The Honourable Anne McLellan, P.C. – Director
- Mr Derek G. Pannell – Director
- Mr Victor J. Zaleschuk – Director

## 7.4 Rationale for Agrium's proposed acquisition of AWB

The acquisition of AWB is consistent with Agrium's strategy to grow across the agricultural value chain (discussed above) including diversifying its operations geographically and achieving its target of US\$1.0 billion of EBITDA within Agrium's retail business unit by 2014.

Through the acquisition of AWB, Agrium sees significant potential to enhance product and service offerings to Australian and New Zealand growers, particularly through AWB's rural services activities, by utilising Agrium's international sourcing capabilities for crop inputs.

Agrium also intends to evaluate AWB's expertise and experience in its Landmark retail operations with the potential to expand Agrium's product and service offerings for growers in North and South America.

Agrium recognises AWB's longstanding reputation amongst Australian growers and believes AWB will complement its global business, while equally AWB's customers will benefit from Agrium's global experience, innovation and expanded product portfolio.



## 7.5 Funding arrangements for Scheme Consideration

Based on the number of AWB Shares and Performance Rights on issue as at the date of this Scheme Booklet, and Scheme Consideration of \$1.50 per AWB Share, the maximum amount of Scheme Consideration that may be payable by Agrium is \$1,236,522,321.

The Scheme Consideration of \$1.50 per AWB Share will be reduced by the cash amount of any Special Dividend that is paid by AWB (prior to the Implementation Date), but Agrium is required to fund the full amount of any Special Dividend through the Special Dividend Loan. If AWB declares a Special Dividend (which would be payable only if the Scheme becomes Effective) Agrium will provide an unsecured, interest free loan (the **Special Dividend Loan**) to AWB in an amount equal to the aggregate cash amount of the dividend payable on each AWB Share.

Details of Agrium's funding arrangements for the Scheme Consideration and the Special Dividend Loan (if any) are set out below. Implementation of the Scheme (and payment of the Scheme Consideration by Agrium) is not conditional on Agrium obtaining any funding or financing arrangements.

The necessary amount to fund the Scheme Consideration (and the Special Dividend Loan, if any) will be sourced from a combination of:

- Agrium's available cash and cash equivalents of US\$790 million as at the date of this Scheme Booklet; and
- draw downs under Agrium's existing committed debt facilities. Agrium has an aggregate available borrowing capacity from its existing debt facilities that is sufficient to meet all of its payment obligations under the Scheme.

Agrium's available cash and cash equivalents have not been reserved for any other purpose. Agrium's ability to draw down under its existing debt facilities is subject to customary conditions precedent. As at the date of this Scheme Booklet, Agrium is not aware of any fact matter or circumstance which would or is likely to prevent it from being able to satisfy the conditions to draw down. Agrium intends to enter into Australian dollar: U.S. dollar foreign exchange hedges in respect of its Australian dollar commitments pursuant to the Scheme.

Agrium will provide to Agrium Australia all funds necessary to fund its obligations under the Scheme, or the Special Dividend Loan, by entering into an unconditional intragroup funding agreement or through direct equity capitalisation of Agrium Australia.

## 7.6 Agrium's intentions if the Scheme is implemented

This section 7.6 sets out Agrium's intentions in relation to:

- the continuation of the business of AWB;
- any major changes to be made to the business of AWB, including any redeployment of the fixed assets of AWB; and
- the future employment of the present employees of AWB,

if Agrium acquires all of the AWB Shares on issue through implementation of the Scheme.

The intentions set out in this section have been formed on the basis of facts and information concerning AWB and the general business environment which is known to Agrium at the date of this Scheme Booklet, based on publicly available information and certain limited non-public information made available to Agrium as part of its due diligence review. Accordingly, the statements set out herein are statements of Agrium's current intentions which are subject to change as new information becomes available or as circumstances change.

The intentions of Agrium Australia in relation to AWB are the same as the intentions of Agrium.

### (a) AWB to be delisted

If the Scheme is implemented, Agrium intends to arrange for AWB to be removed from the Official List of ASX after the Implementation Date.

### (b) Review of AWB's business

Agrium is conducting a general review of the operations, structure, businesses, assets and employees of AWB to evaluate performance, profitability and prospects. This review will apply quantitative and qualitative factors to measure performance and identify areas for improvement. Following this review, Agrium may re-formulate its business strategy.

### (c) Intentions for the continuation of AWB's business

Agrium currently has no material operations in Australia and therefore no material overlap exists between Agrium's and AWB's operations.

Agrium's current intentions for AWB's businesses are as follows:

- **Rural Services (Landmark):** Agrium intends to continue to operate and develop the Rural Services businesses, and to conduct a comprehensive assessment of products and services offered to growers and AWB's procurement processes. Agrium plans to utilise its significant buying power and expertise in the production and provision of crop inputs and services to improve the product and service offerings to Australian and New Zealand grower customers.

By utilising its global procurement capabilities, Agrium expects to deliver these products and services to growers as economically as possible;

- **Commodity Management:** Agrium considers the significant relationship between AWB and its grower suppliers to be an important part of AWB's operations and intends to maintain that relationship. However, in light of the sale processes undertaken by AWB in respect of both the Australian and international commodity management businesses during 2009 and 2010, Agrium is, together with AWB's management, assessing the rationale for these sale proposals and is considering a full range of strategic options for these businesses going forward.

Agrium recognises the history and reputation of AWB's brands and their importance to AWB's operations. Accordingly, it is Agrium's intention to continue to operate the AWB business under AWB's existing brand names.

**(d) Future employment of AWB's present employees**

Agrium considers AWB's employees to be an integral part of the business' culture, reputation and success. As a general matter, it is Agrium's intention to continue the employment of AWB's employees and for AWB's operations to continue to be managed by AWB's existing management team. Agrium believes that the acquisition of AWB will offer exciting opportunities for AWB's employees and management as part of a much larger enterprise and a global supplier of agricultural products and services. Agrium has a strong commitment to developing its employees and has been recognised as one of Canada's Top 100 employers and one of Alberta's Top 50 employers.

Agrium has developed a number of programs and initiatives focused on employee development, workplace safety, employee engagement, diversity and community engagement for its employees. These programs are expected to be implemented in an appropriate form for the benefit of AWB's employees after implementation of the Scheme.

If the Scheme is implemented, and subject to the aforementioned strategic review, it is likely that the elimination of duplicated functions across the AWB and Agrium businesses may result in some positions becoming redundant. It is Agrium's intention to endeavour to identify suitable alternative roles for affected AWB employees. However, this may not be feasible in all cases. In those circumstances, the relevant AWB employees would receive redundancy payments and other benefits in accordance with their contractual and other legal entitlements.

## 7.7 Agrium's interests in AWB Shares

**(a) Agrium's interests in AWB Shares**

As at the date of this Scheme Booklet, Agrium and its associates do not have a relevant interest or voting power in any AWB Shares.

**(b) Agrium's directors' interests in AWB Shares**

As at the date of this Scheme Booklet, Agrium's directors do not have a relevant interest or voting power in any AWB Shares.

**(c) Acquisition of AWB Shares by Agrium and its Associates**

Except for the consideration to be provided under the Scheme, in the four months prior to the date of this Scheme Booklet, neither Agrium, nor any of its associates (including Agrium Australia) have provided or agreed to provide, any consideration for AWB Shares under a purchase or an agreement.

**(d) Pre-Scheme Benefits**

Other than as described in this Scheme Booklet, none of Agrium nor any of its associates has given, or agreed to give, a benefit to another person that might induce that person to vote in favour of the Scheme or dispose of their AWB Shares during the four month period immediately preceding the date of this Scheme Booklet, where that benefit was not offered to all AWB Shareholders.

# 8.

## Implementation of the Scheme



### 8.1 Scheme Implementation Deed

On 20 August 2010, AWB and Agrium entered into a Scheme Implementation Deed in relation to the Scheme under which AWB agreed to propose the Scheme.

The Scheme Implementation Deed sets out AWB's and Agrium's obligations in connection with the implementation of the Scheme. A summary of the key elements of the Scheme Implementation Deed is set out below and a full copy is available on AWB's website [www.awb.com.au](http://www.awb.com.au).

#### CONDITIONS PRECEDENT

Implementation of the Scheme is subject to conditions precedent which must be satisfied or waived before the Scheme can be implemented. The conditions precedent are as follows:

- (a) before 8.00am on the Second Court Date, the Treasurer of the Commonwealth of Australia either issues a notice stating the Commonwealth Government does not object to the proposed acquisition of AWB Shares by Agrium, either without conditions or with conditions Agrium considers acceptable (acting reasonably) or becomes, or is precluded (at any time before the Scheme becomes Effective) under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) from making an order in respect of the proposed acquisition of AWB Shares by Agrium;
- (b) before 8.00am on the Second Court Date, Agrium has received all consents required under the *Overseas Investment Act (2005)* (New Zealand) required for the implementation of the Scheme, either unconditionally or on terms acceptable to Agrium acting reasonably;
- (c) before 8.00am on the Second Court Date, any approvals or consents from a Government Agency in a jurisdiction in which AWB operates (excluding Australia) that are necessary to implement the Scheme and which Agrium has notified AWB within 21 days of the date of the Scheme Implementation Deed, are obtained on an unconditional basis or on terms acceptable to Agrium acting reasonably (or the relevant regulatory waiting periods have expired);
- (d) before 8.00am on the Second Court Date, ASIC and ASX issue or provide any consents or approvals or do any other acts which AWB and Agrium agree are reasonably necessary or desirable to implement the Scheme;
- (e) AWB Shareholders agree to the Scheme by the requisite majorities;
- (f) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or governmental agency or other material legal restraint or prohibition preventing implementation of the Scheme is in effect at 8.00am on the Second Court Date;



- (g) AWB Shareholders approve the removal of the 10% shareholding cap in AWB's Constitution by the requisite majorities before 8.00am on the Second Court Date;
- (h) no AWB Prescribed Occurrence occurs between 20 August 2010 and 8.00am on the Second Court Date;
- (i) the representations and warranties of AWB and Agrium are true and correct in all material respects as at 20 August 2010 and 8.00am on the Second Court Date. These representations and warranties relate to items such as providing information in good faith, information in the Scheme Booklet not being misleading or deceptive in a material way, each company having power to enter the deed and Agrium having sufficient funding arrangements; and
- (j) the Court approves the Scheme.

The term 'AWB Prescribed Occurrence' is defined in clause 1.1 of the Scheme Implementation Deed. It covers events such as changes to AWB's capital structure, the payment of a dividend (except as agreed with Agrium), disposal of the whole or a substantial part of AWB's business and insolvency events.

Full details of the Conditions Precedent and the ability of AWB and Agrium to rely on the various Conditions Precedent and the provisions relating to satisfaction or waiver of these Conditions Precedent are set out in clause 3 of the Scheme Implementation Deed.

Further details of the status of the regulatory conditions are contained in section 10.7. As stated in that section, the condition precedent described in paragraph (a) relating to foreign investment approval in Australia has been satisfied. As at the date of this Scheme Booklet, AWB is not aware of any reason why the Conditions Precedent (other than Court approval) will not be satisfied by 8.00am on the Second Court Date.

### NO-TALK AND NO-SHOP OBLIGATIONS

AWB has agreed that during the Restricted Period (being the period from 20 August 2010 until the earlier of termination of the Scheme Implementation Deed and 31 March 2011), it must ensure that neither it nor any of its Representatives, Related Bodies Corporate nor any of their Representatives (**AWB Representatives**):

- directly or indirectly participate in or continue any discussions or negotiations;
- provide or make available any information (including by way of providing information and access to perform due diligence);
- enter into any arrangement, agreement or understanding; or
- communicate any intention to do any of these things,

in relation to, or which may reasonably be expected to lead to a Competing Transaction (the **No-Talk Obligation**).

However, AWB and AWB Representatives may undertake any action, which would otherwise be prohibited by the No-Talk Obligation, in relation to a bona fide Competing Transaction received after 20 August 2010 which was not solicited by AWB and was not otherwise brought about as a result of any breach by AWB of its No-Talk Obligation and its No-Shop Obligation (as defined below), where:

- the Competing Transaction constitutes, or would be reasonably likely to constitute, a Superior Proposal; and
- the AWB Board, acting in good faith and having obtained written legal advice determines that failure to undertake such act in response to a Competing Transaction would be likely to involve a breach of any AWB Director's fiduciary duties; or
- it would otherwise be unlawful.

AWB has agreed that during the Restricted Period it must ensure that neither it nor any AWB Representatives solicit, invite, directly or indirectly, enquiries, discussions or proposals in relation to, or which may reasonably be expected to lead to, a Competing Transaction, or communicate to any person an intention to do any of those things (**No-Shop Obligation**).

During the Restricted Period, AWB must notify Agrium in writing if it or any AWB Representative becomes aware of any:

- (1) negotiations or discussions, approach or attempt to initiate any negotiations or discussions, or intention to make such an approach or attempt, in respect of an expression of interest, offer or proposal of the kind referred to in the No-Talk Obligation or the No-Shop Obligation, including the details of the party making the expression of interest, offer or proposal and the terms and any updates to the expression of interest, offer or proposal;
- (2) proposal made to AWB or AWB Representatives in connection with or in respect of a Competing Transaction or a proposed or potential Competing Transaction, including details of the party making the proposal, its terms, and any updates to the proposal;
- (3) provision by AWB or AWB Representatives of any information relating to AWB or any of its related bodies corporate or any of their businesses or operations to any person in connection with a Competing Transaction; and
- (4) action by AWB, or any intention of it to take any action, in reliance on the limitation to the No-Talk Obligation set out above.

However, the notification obligation described above does not apply to the extent that it requires AWB to provide information the AWB Board has determined in good faith, and after having obtained written legal advice, that the consequences of providing the relevant information would be likely to constitute a breach of the fiduciary duties owed by any AWB director.

AWB has agreed that neither it nor the AWB Representatives will provide any information relating to AWB to any person in relation to a Competing Transaction, unless that person has agreed to a standstill in respect of AWB on terms no more favourable than the standstill to which Agrium has agreed.

### PAYMENT OF AWB REIMBURSEMENT FEE

AWB has agreed that the amount of \$12.26 million (excluding GST) (the **AWB Reimbursement Fee**) will become payable to Agrium if:

- (a) prior to the earlier of the Effective Date or the End Date, any member of the AWB Board fails to recommend or withdraws or adversely modifies his support of the Scheme or recommendation that AWB Shareholders vote in favour of the Scheme or the constitutional amendment resolution, or makes a public statement indicating that they no longer support the Scheme or the constitutional amendment resolution or that they support a Competing Transaction other than as a result of:
  - (1) the Independent Expert opining that the Scheme is not in the best interests of Scheme Shareholders (other than where the reason for that opinion is a Competing Transaction);
  - (2) Agrium being in material breach of the Scheme Implementation Deed and such breach has not been remedied by Agrium within 5 Business Days (or any shorter period ending on the Second Court Date) from the time written notice of the breach stating an intention to terminate has been given by AWB to Agrium; or

- (3) a Court or government agency having taken any action permanently restraining or otherwise prohibiting the Scheme, or has refused to do anything necessary to permit the Scheme, and the action or refusal has become final and cannot be appealed; or
  - (4) a failure of a condition precedent to the Scheme (except an AWB Prescribed Occurrence or a breach of an AWB representation and warranty), other than as a result of a breach by AWB to use its best endeavours to procure that the conditions precedent (other than the Agrium representations and warranties) are satisfied in accordance with their terms;
- (b) a Competing Transaction is announced or made prior to the earlier of the Effective Date or the End Date and, within 12 months after the date of the Scheme Implementation Deed, a person other than Agrium (or its associates) has or acquires voting power of 50% or more in AWB pursuant to that transaction and the Competing Transaction is, or becomes, free from defeating conditions;
- (c) at any time prior to the earlier of the Effective Date or the End Date, a person, other than a member of the Agrium Group, acquires or agrees to acquire the whole or a substantial part of AWB's assets, business or property (whether by way of acquisition, amalgamation, scheme of arrangement or otherwise); or
- (d) AWB is in material breach of any clause of the Scheme Implementation Deed and Agrium terminates the Scheme Implementation Deed as a result.

AWB considers it is reasonable and appropriate to agree to the payment of the AWB Reimbursement Fee to secure the participation of Agrium and the significant benefits available to AWB from the Scheme, without which Agrium would not have entered the Scheme Implementation Deed.

AWB will not be obliged to pay the AWB Reimbursement Fee if the Scheme becomes Effective. AWB will also not be obliged to pay the AWB Reimbursement Fee to the extent that the obligation constitutes unacceptable circumstances as declared by the Takeovers Panel or the obligation is held to be unenforceable by Agrium against AWB as determined by a court, in each case after all proper avenues of appeal have been exhausted.

Except in circumstances where AWB has wilfully breached certain of its obligations under the Scheme Implementation Deed, the maximum aggregate amount payable by AWB in relation to a breach of the Scheme Implementation Deed is the AWB Reimbursement Fee.

#### TERMINATION

Either AWB or Agrium may terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court date if:

- (1) the other party is in material breach of the Scheme Implementation Deed and the breach is not remedied within 5 Business Days (or any shorter period ending on the Second Court Date) of receiving notice of the breach (including a statement of an intention to terminate if not remedied);

- (2) a Court or government agency has taken any action permanently restraining or otherwise prohibiting the Scheme, or has refused to do anything necessary to permit the Scheme, and the action or refusal has become final and cannot be appealed; or
- (3) a majority of the AWB Board changes or withdraws their recommendation to AWB Shareholders to vote in favour of the Scheme, or recommends a Competing Transaction (however, AWB can only terminate the Scheme Implementation Deed in this circumstance if such action by AWB was in compliance with the Scheme Implementation Deed).

Either party may also terminate the Scheme Implementation Deed if the Scheme has not become Effective by the End Date (subject to any extensions of the End Date) or if any event occurs which would, or does prevent a Condition Precedent being satisfied and that Condition Precedent is not waived following consultation in good faith between AWB and Agrium.

Agrium may also terminate the Scheme Implementation Deed at any time before 8.00am on the Second Court date if there is an AWB Material Adverse Change. The term 'AWB Material Adverse Change' is defined in clause 1.1 of the Scheme Implementation Deed. It covers among other things, any matter, event or circumstance which has the effect of diminishing the consolidated net tangible assets of AWB Group by at least \$140 million or diminishing the future consolidated recurring profit before tax of AWB Group by at least \$20 million per year.

#### OTHER

Each of AWB and Agrium has given representations and warranties to the other which are considered to be normal for an agreement of this kind.

AWB does not expect that any stamp duty will be payable on the transfer of the Scheme Shares to Agrium. However, if stamp duty is payable in connection with the Scheme, Agrium has an obligation under the Scheme Implementation Deed to pay the stamp duty.

AWB and Agrium have committed to implement the Scheme by the End Date being 31 March 2011. If the Scheme is not Effective by the End Date, AWB and Agrium must consult in good faith to determine whether the transaction can proceed by way of alternative means or methods or whether the End Date should be extended. If AWB and Agrium are unable to reach agreement to extend the End Date, either party may terminate the Scheme Implementation Deed, and if either does, the Scheme will not proceed.

## 8.2 Deed Poll

On 6 October 2010, Agrium executed the Deed Poll, pursuant to which Agrium agreed, subject to the Scheme becoming Effective, to deposit an amount equal to the Scheme Consideration payable to all Scheme Shareholders in a trust account operated by AWB as trustee for the Scheme Shareholders. Under the Scheme, AWB must pay this money to the relevant shareholders.

A copy of the Deed Poll is attached as Annexure C to this Scheme Booklet.

### 8.3 Scheme Meeting

On or about the date of this Scheme Booklet, the Court ordered that the Scheme Meeting be convened in accordance with the Notice of Scheme Meeting and appointed Mr Peter Polson to chair the Scheme Meeting. The Notice of Scheme Meeting is set out as Annexure D to this Scheme Booklet.

Each AWB Shareholder who is registered on the Register at 7.00pm on 14 November 2010 is entitled to attend and vote at the Scheme Meeting, either in person or by direct vote, proxy or attorney or, in the case of a body corporate, by its corporate representative appointed in accordance with section 250D of the Corporations Act. Voting at the Scheme Meeting will be by poll.

Instructions on how to attend and vote at the Scheme Meeting (in person or by direct vote or proxy), are set out in section 4 of this Scheme Booklet and in the notes for the Notice of Scheme Meeting in Annexure D to this Scheme Booklet.

### 8.4 Court approval of the Scheme

In the event that:

- (1) the Scheme is agreed to by the requisite majorities of AWB Shareholders at the Scheme Meeting; and
- (2) all Conditions Precedent have been satisfied or waived (if they are capable of being waived) (see section 8.1),

AWB will apply to the Court for orders approving the Scheme.

Each AWB Shareholder has the right to appear at the Second Court Hearing.

### 8.5 Effective Date

The Scheme will become Effective on the Effective Date, being the date an office copy of the Court order from the Second Court Hearing approving the Scheme is lodged with ASIC. AWB will, on the Scheme becoming Effective, give notice of that event to ASX.

AWB intends to apply to ASX for AWB Shares to be suspended from official quotation on ASX from close of trading on the Effective Date.

### 8.6 Scheme Record Date

Those AWB Shareholders on the Register on the Scheme Record Date (i.e. at 5.00pm on the eighth Business Day after the Effective Date) will become entitled to the Scheme Consideration in respect of the AWB Shares they hold at that time (in this Scheme Booklet, those AWB Shareholders and the AWB Shares that they hold are referred to as 'Scheme Shareholders' and 'Scheme Shares' respectively).

### 8.7 Determination of persons entitled to Scheme Consideration

#### (a) Dealings on or prior to the Scheme Record Date

For the purposes of calculating entitlements under the Scheme, any dealing in AWB Shares will only be recognised if:

- (1) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant AWB Shares on or before the Scheme Record Date; and
- (2) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Scheme Record Date at the AWB Registry.

Subject to the Corporations Act, ASX Listing Rules and the AWB Constitution, AWB must register registrable transmission applications or transfers which it receives by the Scheme Record Date. AWB will not accept for registration or recognise for any purpose any transmission application or transfer in respect of AWB Shares received after the Scheme Record Date.

#### (b) Dealings after the Scheme Record Date

For the purposes of determining the entitlement to Scheme Consideration, AWB will, until the Scheme Consideration has been provided, maintain the Register, subject to the comments in section 8.7(a), in its form as at the Scheme Record Date. The Register in this form will solely determine entitlements to Scheme Consideration.

From the Scheme Record Date:

- (1) all statements of holding in respect of AWB Shares cease to have effect as documents of title in respect of such AWB Shares; and
- (2) each entry on the Register will cease to be of any effect except as evidence of entitlement to Scheme Consideration in respect of the AWB Shares relating to that entry.

### 8.8 Implementation Date

The Implementation Date is the second Business Day after the Scheme Record Date.

Once the Scheme Consideration has been paid, the Scheme Shares will be transferred to Agrium without need for further acts by Scheme Shareholders.

In the case of Scheme Shares held in joint names, the Scheme Consideration will be made payable to the joint holders and sent to the holder whose name appears first in the Register as at the Scheme Record Date.

### 8.9 Delisting AWB

On a date after the Implementation Date to be determined by Agrium, AWB will apply:

- (1) for termination of the official quotation of AWB Shares on the ASX; and
- (2) to have itself removed from the official list of the ASX.



# 9.

# Taxation implications



## 9.1 Taxation outline

### (a) General

This outline contains a general overview of the Australian income tax implications of the Scheme for AWB Shareholders who are Australian residents for taxation purposes, who hold their AWB Shares on capital account, and who are Scheme Shareholders.

Specifically, the following tax implications of the Scheme are considered:

- the Australian income tax implications of the proposed Special Dividend; and
- the Australian income tax implications of the disposal of AWB Shares under the Scheme.

This outline does not discuss the taxation implications for the following AWB Shareholders:

- shareholders who hold their shares on revenue account; and
- non-Australian resident shareholders.

All AWB Shareholders should seek independent professional advice on the tax consequences of the Scheme based on their particular circumstances.

### (b) ATO ruling

AWB has requested an ATO Class Ruling in relation to the Australian tax implications of the Scheme.

The tax implications arising from the Scheme will depend on whether the ATO approves the payment of the Special Dividend.

Sections 9.2 and 9.3 outline the tax implications arising from the Scheme where the ATO approves the payment of the Special Dividend.

Section 9.4 outlines the tax implications arising from the Scheme where the ATO does not approve the payment of the Special Dividend.

## 9.2 Receipt of AWB Special Dividend

### (a) Assessability of Special Dividend

If a Special Dividend is determined by the AWB Directors, AWB Shareholders who receive the Special Dividend should include the Special Dividend as assessable income in the income year in which they receive the Special Dividend.

If a Special Dividend is determined by the AWB Directors, the Special Dividend will be a fully franked dividend. Accordingly, the amount included in assessable income should be the cash amount of Special Dividend received, 'grossed-up' by the franking credits attached to the dividend.

### (b) Holding period requirement and franking tax offset

AWB Shareholders are entitled to offset their tax liability by the amount of franking credits attached to the Special Dividend, provided they are a 'qualified person' in relation to the dividend.

#### *Holding period requirement*

An AWB Shareholder will be a 'qualified person' if they hold their shares 'at risk' for at least 45 clear continuous days in the period from 12 October 2010 to 30 November 2010.

An example of where AWB Shareholders would not be considered to hold their shares 'at risk' is where a hedging relationship is entered into in respect of those shares, or a put option taken out.

#### *Refundable franking tax offset*

Where their franking tax offset is higher than their tax liability for an income year, AWB Shareholders who are individuals or complying superannuation funds may be entitled to a refund of the difference.

## 9.3 Disposal of AWB Shares

### (a) Capital gains tax

The disposal of AWB Shares on acquisition by Agrium under the Scheme will give rise to a CGT event.

AWB Shareholders will:

- make a capital gain if the capital proceeds from the disposal are greater than the cost base of their AWB Shares. The capital gain is reduced by the Special Dividend amount (this is discussed in subsection 9.3(c)). In calculating the reduced capital gain amount, AWB Shareholders may be able to utilise discount, or indexation of the cost base, as applicable. These are discussed below; or
- make a capital loss if the capital proceeds from the disposal are less than the reduced cost base of their AWB Shares.

### (b) Capital proceeds and cost base

The capital proceeds from the disposal will be equal to the cash consideration and any Special Dividend received under the Scheme in exchange for the AWB Shares. Under the terms of the Scheme, the capital proceeds should be \$1.50. However, if a Special Dividend is paid, the capital gains rules ensure that the capital gain is reduced by the amount of the Special Dividend.

The cost base of AWB Shares will generally include their original or deemed cost of acquisition, plus any incidental costs incurred in relation to their acquisition.

### (c) Capital gain

In the event that the capital proceeds from the disposal are greater than the cost base of the AWB Shares, AWB Shareholders will be subject to CGT on the capital gain.

However, the capital gain will be reduced by the Special Dividend amount to the extent that the Special Dividend has been included in assessable income (as discussed in section 9.2). The capital gain will not be reduced by the franking credits attached to the Special Dividend.

In calculating the reduced capital gain amount, AWB Shareholders may be able to utilise the CGT discount, or indexation of the cost base, as applicable.

#### *CGT discount*

Broadly, individuals, trusts and complying superannuation funds that have held AWB Shares for at least 12 months prior to the implementation date of the Scheme should be entitled to the CGT discount in calculating the amount of capital gain on the disposal of their AWB Shares.

The applicable CGT discount which would reduce a capital gain arising from the disposal of AWB Shares is as follows:

- 50% for individuals and trustees (except a trust that is a complying superannuation trust); and
- 33.33% for a complying superannuation trust.

The CGT discount is not available to AWB Shareholders that are companies.

#### *Indexation*

AWB Shareholders who acquired their AWB Shares prior to 11.45am on 21 September 1999 can elect to apply indexation to the cost base of their shares up to 30 September 1999.

AWB Shareholders who elect to apply indexation may not also apply the CGT discount.

### (d) Capital loss

In the event that the capital proceeds from disposal are less than the reduced cost base of the AWB Shares, AWB Shareholders will make a capital loss. The capital loss will not be increased by the Special Dividend amount that may have been included in assessable income.

## 9.4 Special Dividend not paid

In this instance, the tax implications outlined in section 9.2 above will not arise. The disposal of AWB Shares will be a CGT event and AWB Shareholders will make a capital gain or capital loss on the disposal of their AWB Shares, depending on the cost base of their AWB Shares.

AWB Shareholders will make a capital gain if the capital proceeds from the disposal are greater than the cost base of their AWB Shares. In this instance, AWB Shareholders may be able to utilise discount or indexation of the cost base, as applicable. These are discussed above.

AWB Shareholders will make a capital loss if the capital proceeds from the disposal are less than the reduced cost base of their AWB Shares.

Under the terms of the Scheme, the capital proceeds from the disposal will be \$1.50 for each AWB Share.

The cost base of AWB Shares will generally include their original or deemed cost of acquisition, plus any incidental costs incurred in relation to their acquisition.

# 10.

## Additional information



### 10.1 Interests of AWB Directors

As at the date of this Scheme Booklet, the AWB Directors had the following relevant interests in AWB Shares:

Director	Number of AWB Shares
Mr Peter Polson	30,000
Mr Gordon Davis	65,000
Mr Fred Grimwade	100,000
Mr Tony Howarth AO	63,174
Mr John Schmoll	35,000
<b>Total</b>	<b>293,174</b>

No director of AWB has acquired or disposed of a Relevant Interest in any AWB Shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

### 10.2 Employee Share Plan

Under the Employee Share Plan (**ESP**), eligible employees are given the opportunity to acquire AWB Shares to the value of \$1,000 for nil consideration. These shares are held on behalf of employees by a trustee.

There are currently a total of 1,228,597 AWB Shares held pursuant to the ESP.

If the Scheme is approved and implemented, all AWB Shares held pursuant to the ESP will be acquired by Agrium. The proceeds of the Scheme Consideration will (after deducting any costs of sale) be paid to the applicable employee.



## 10.3 Staff Ownership Plan

Employee share offers were made under the Staff Ownership Plan (SOP) between 2002 and 2005 whereby eligible employees could acquire AWB Shares with an interest free loan. Any dividends paid in respect of AWB Shares held under the SOP are used to repay the loan.

AWB Shares under the SOP are held on behalf of employees by a trustee. There are currently 3,762,241 AWB Shares held by the trustee.

If the Scheme is approved and implemented, all AWB Shares held pursuant to the SOP will be acquired by Agrium. The proceeds of the Scheme Consideration will (after deducting any costs of sale) be initially used to pay any outstanding loan amount on the AWB Shares for each employee. The balance of the Scheme Consideration (if any) will be paid to the employee. The AWB Board is considering a number of options in relation to any outstanding loan amounts owed by employees in respect of the AWB Shares held subject to the SOP.

## 10.4 Performance Rights

### (a) Background

AWB currently operates a long term incentive scheme pursuant to which it makes annual grants to eligible AWB executives of rights over unissued shares under a performance rights plan.

There are currently a total of 6,977,311 Performance Rights outstanding in respect of grants made in 2006, 2007, 2008 and 2009, most of which are not due for testing until after the time the Scheme is expected to become effective.

In addition, the Chief Executive Officer, Gordon Davis holds 965,224 cash Performance Rights in respect of grants made by AWB in 2006, 2007 and 2008 under cash performance rights plans.

The terms of the Performance Rights have differed from year to year.

A brief explanation of the relevant terms of the Performance Rights, and some information regarding the implications of the Scheme for holders of Performance Rights and cash Performance Rights, is set out below.

### (b) Overview of Performance Rights plan

Performance Rights granted under AWB's performance rights plans enable holders to acquire AWB Shares for nil (or in respect of Performance Rights granted in 2006, nominal) consideration, subject to the satisfaction of certain performance hurdles.

The performance rights plan applicable to the 2009 grant uses return on funds employed over a three year period as the performance hurdle. The performance rights plan applicable to grants made in 2007 and 2008 uses absolute total shareholder return as the performance hurdle. The performance rights plan applicable to grants made in 2006 uses a combination of absolute and relative total shareholder returns as the performance hurdle.

In the ordinary course, each Performance Right would be exercisable into one AWB Share where the applicable performance hurdles are met. However, the terms of each of the performance rights plans (as amended) give the AWB Board the discretion to determine that any outstanding, unvested performance rights vest early in certain circumstances.

The AWB Board has exercised its discretion to determine that all outstanding Performance Rights become vested Performance Rights, conditional on the Court ordering that AWB convene and hold the Scheme Meeting.

In accordance with the discretion exercised by the AWB Board, each holder is able to exercise their Performance Rights and participate in the Scheme.

### (c) Chief Executive Officer's Cash Performance Rights

As previously disclosed in AWB's annual report, in 2006, 2007 and 2008 Mr Davis was granted 'phantom' share rights under performance rights plans that mirrored those described above (for the relevant years), except that the 'phantom' share rights are to be paid in cash when they become vested.

In the ordinary course, each cash Performance Right would entitle Mr Davis to a cash payment (based on 20 day VWAP of AWB Shares up to the date of vesting) where the applicable performance hurdles are met. However, the terms of each of the cash performance rights plans (as amended) give the AWB Board the discretion to determine that any outstanding, unvested performance rights vest early in certain circumstances.

The AWB Board has determined that upon AWB Shareholders approving the Scheme it will provide notice to Mr Davis that it has exercised its discretion to determine that all outstanding cash Performance Rights have become vested cash Performance Rights. The exercise of the AWB Board's discretion in this way is consistent with the treatment of performance rights held by other AWB executives.

Mr Davis also holds 800,000 Performance Rights which were granted to him earlier this year with the approval of AWB Shareholders. These Performance Rights are proposed to be treated in the same manner as described in paragraph (b) above.

## 10.5 Interests and dealings in Agrium Shares

As at the date immediately before the date of this Scheme Booklet, no director of AWB had a Relevant Interest in any Agrium Shares.

No director of AWB acquired or disposed of a Relevant Interest in any Agrium Shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

## 10.6 Benefits and agreements

### (a) Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of AWB (or its Related Bodies Corporate) as compensation for the loss of or consideration for or in connection with his or her retirement from office in AWB or any of its Related Bodies Corporate in connection with the Scheme.

All directors of AWB are expected to retire once the Scheme is implemented. Mr Gordon Davis will become entitled to a severance payment of \$1,000,000. No other director is entitled to any severance or retirement payment. Further details of severance payments for executives are set out in AWB's annual report for 2009.

### (b) Agreements connected with or conditional on the Scheme

There are no agreements made between any director of AWB and any other person in connection with, or conditional on, the outcome of the Scheme other than in their capacity as a holder of AWB Shares or Performance Rights or as set out below.

Agrium has indemnified each AWB Director from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising out of any breach of any of the representations and warranties given by Agrium in Schedule 1 to the Scheme Implementation Deed.

### (c) Benefits under the Scheme

None of the directors of AWB has agreed to receive, or is entitled to receive, any benefit from Agrium which is conditional on, or is related to, the Scheme, other than in their capacity as a holder of AWB Shares or Performance Rights or as set out in clause 10.6(b).

### (d) Interests of Directors in contracts with Agrium

None of the directors of AWB has any interest in any contract entered into by Agrium.

## 10.7 Status of regulatory conditions

The regulatory approvals that are conditions to the Scheme are discussed in section 8.1 of this Scheme Booklet. As at the date of this Scheme Booklet:

- On 1 October 2010, the Foreign Investment Review Board notified Agrium that there are no objections to the proposed acquisition of AWB Shares by Agrium in terms of the Australian Government's foreign investment policy. Accordingly, the condition precedent to the Scheme relating to this approval has been satisfied;
- Agrium is in the process of applying for regulatory approval in New Zealand under the *Overseas Investment Act 2005* (NZ); and
- AWB and Agrium are working together to identify and address any approvals or consents from a Government Agency in a jurisdiction in which AWB operates (excluding Australia) that are necessary to implement the Scheme.

AWB will make a statement regarding the status of these conditions at the commencement of the Scheme Meeting.

## 10.8 ASIC relief

Sub-regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC otherwise allows, this Scheme Booklet contain the matters set out in part 3 of schedule 8 to the Corporations Regulations. ASIC has granted the following relief from certain of those disclosure requirements:

### (a) Payments or benefits proposed to be made or given to AWB Directors or officers

Clause 8302(d) of part 3 of schedule 8 to the Corporations Regulations requires this Scheme Booklet to disclose particulars any payment or benefit that is proposed to be made or given to any director, secretary or executive officer of AWB or a related body corporate of AWB (**Relevant Person**) as compensation for loss of office, or as consideration for or in connection with his or her retirement from office.

ASIC has granted AWB relief from this requirement such that:

- (1) AWB is not required to disclose particulars of payments or benefits proposed to be made or given to a Relevant Person in relation to their loss of office or retirement from office, unless:
  - (A) the Relevant Person will lose office or retire from office as a consequence of, or in connection with the Scheme; or
  - (B) the amount of any payment or benefit which may be made to the Relevant Person upon their loss of office or retirement from office may be materially affected by the Scheme; and
- (2) the Scheme Booklet is not required to state the identity of any Relevant Person who will lose office or retire from office in connection with the Scheme, unless that person is a director of AWB.

### (b) Change in Financial Position

Clause 8302(h) of part 3 of schedule 8 to the Corporations Regulations requires the Scheme Booklet to set out whether, within the knowledge of the AWB Directors, the financial position of AWB has materially changed since the date of the last balance sheet laid before an AWB annual general meeting or sent to AWB Shareholders in accordance with section 314 or 317 of the Corporations Act.

ASIC has granted AWB relief from this requirement on the condition that:

- (1) AWB has complied with Division 2 of Part 2M.3 of the Corporations Act in respect of the half year ended 31 March 2010;
- (2) AWB has lodged with ASIC and ASX the documents referred to in section 303 of the Corporations Act for the half year ended 31 March 2010 on or before the date this Scheme Booklet is despatched to members of AWB;
- (3) the Scheme Booklet states that AWB will give a copy of the documents referred to in paragraph (2) above free of charge to anyone who requests them before the Scheme to which the Scheme Booklet relates is approved by the Court;
- (4) all material changes in AWB's financial position occurring after 31 March 2010 but prior to the date of the Scheme Booklet are disclosed in the Scheme Booklet; and
- (5) the Scheme Booklet sent to members is substantially in the form given to ASIC on 6 October 2010.

## 10.9 ASX Listing Rule 7.14 Waiver

Listing Rule 7.14 provides that an entity must not have a record date for any purpose until at least 6 business days after its last record date but that an entity can have an identical record date for different purposes. ASX has granted AWB a waiver from Listing Rule 7.14 to permit the Special Dividend Record Date to be within 6 business days of the Scheme Record Date.

## 10.10 Formal disclosures and consents

### (a) Consents

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- (1) Agrium in respect of the Agrium Information only; and
- (2) Lonergan Edwards & Associates Limited as the Independent Expert.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- (3) Deutsche Bank as financial adviser to AWB;
- (4) Freehills as legal adviser to AWB; and
- (5) Computershare Investor Services Pty Limited as the AWB Registry.

### (b) Disclosures and responsibility

Further each person named in section 10.10(a)(1) – 10.10(a)(5):

- (1) has not authorised or caused the issue of this Scheme Booklet;
- (2) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
  - Agrium in respect of the Agrium Information only; and
  - Lonergan Edwards & Associates Limited, in relation to its Independent Expert's Report; and
- (3) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 10.10(b).

## 10.11 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any AWB Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to AWB Shareholders.

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, AWB becomes aware that:

- (1) a material statement in this Scheme Booklet is false or misleading;
- (2) there is a material omission from this Scheme Booklet;
- (3) a significant change affecting a matter in this Scheme Booklet has occurred; or
- (4) a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

AWB will prepare a supplementary document to this Scheme Booklet. The form which the supplementary document may take, and whether a copy will be sent to each shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from AWB's website at [www.awb.com.au](http://www.awb.com.au) and from the ASX website at [www.asx.com.au](http://www.asx.com.au).



# 11.

## Glossary and interpretation



### 11.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
<b>Acquisition</b>	the acquisition of AWB by Agrium to be effected by the Scheme in accordance with the Scheme Implementation Deed.
<b>Agrium</b>	Agrium Inc. or Agrium Australia as the context requires.
<b>Agrium Australia</b>	Agrium South Pacific Pty Limited ACN 146 679 610.
<b>Agrium Group</b>	Agrium and each of its subsidiaries.
<b>Agrium Information</b>	<div>the information contained in:</div> <ul style="list-style-type: none"><li>• section 7;</li><li>• section 8.9;</li><li>• section 10.7 (other than the last paragraph);</li><li>• the paragraph commencing “Any forward-looking statements included in the Agrium Information” in the subsection headed ‘Disclaimer as to forward-looking statements’ in the Important Notices; and</li><li>• the answer to the question “Who is Agrium?” in section 3.</li></ul>
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited.
<b>ASX Listing Rules</b>	the Listing Rules of the ASX.

Term	Meaning
ATO	Australian Taxation Office.
AWB	AWB Limited ABN 99 081 890 459.
AWB Board	the board of directors of AWB.
AWB Constitution	the constitution of AWB.
AWB Director	each member of the AWB Board.
AWB Group	AWB and each of its Related Bodies Corporate.
AWB Information	the information contained in this Scheme Booklet other than the Agrium Information and the information contained in Annexure A.
AWB Information Line	1800 810 032 from within Australia and +61 3 9415 4393 from outside Australia.
AWB Prescribed Occurrence	the meaning given to that term in the Scheme Implementation Deed.
AWB Registry	Computershare Investor Services Pty Limited ACN 078 279 277.
AWB Reimbursement Fee	\$12.26 million (excluding GST).
AWB Share	a fully paid ordinary share in the capital of AWB.
AWB Shareholder	each person registered in the Register as a holder of AWB Shares.
Business Day	a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne.
CGT	capital gains tax.
CHESS	the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.
Commodity Management	the commodity management division of AWB.
Competing Transaction	<p>a transaction or arrangement pursuant to which a third party will, if the transaction or arrangement is entered into or completed:</p> <ol style="list-style-type: none"> <li>(1) acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have an economic interest in all or a substantial part of the business of AWB and its subsidiaries;</li> <li>(2) acquire a relevant interest in, become the holder of, or otherwise acquire, have a right to acquire or have an economic interest, directly or indirectly, in 50% or more of AWB's voting shares;</li> <li>(3) acquire control (as determined in accordance with section 50AA of the Corporations Act) of AWB; or</li> <li>(4) otherwise acquire or merge with AWB,</li> </ol> <p>whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement.</p>
Conditions Precedent	the conditions precedent to the Scheme. A summary is set out in section 8.1 of this Scheme Booklet and which are fully set out in clause 3.1 of the Scheme Implementation Deed.
Constitutional Amendments	the amendments proposed to the AWB Constitution to permit the acquisition of the AWB Shares by Agrium under the Scheme and payment of the Special Dividend, as more fully described in the Notice of Extraordinary General Meeting set out in Annexure E to this Scheme Booklet.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Court	the Supreme Court of Victoria or such other Court of competent jurisdiction under the Corporations Act agreed in writing by AWB and Agrium.
Deed Poll	the deed poll executed by Agrium on 6 October 2010 pursuant to which Agrium acknowledges and confirms its obligations under the Scheme. A copy of the executed Deed Poll is contained in Annexure C to this Scheme Booklet.

Term	Meaning
EBIT	earnings before interest and tax.
Effective	when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.
Effective Date	the date on which the Scheme becomes Effective.
End Date	31 March 2011.
Extraordinary General Meeting	the meeting of AWB Shareholders to consider, and if thought fit, approve the Constitutional Amendments.
Government Agency	any foreign or Australian Government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity or minister of the Crown in right of the Commonwealth of Australia or any state.
Implementation Date	2 Business Days following the Scheme Record Date or such other day as AWB and Agrium agree.
Independent Expert	Loneragan Edwards & Associates Limited ABN 53 095 445 560.
Independent Expert's Report	the report prepared by the Independent Expert dated 5 October 2010 set out in Annexure A.
Landmark	the Landmark business within the Rural Services division of AWB.
Melbourne time	the local time in Melbourne, Victoria.
No-Talk Obligation	has the meaning given to it in section 8.1.
No-Shop Obligation	has the meaning given to it in section 8.1.
Notice of Extraordinary General Meeting	the notice of meeting relating to the Extraordinary General Meeting which is contained in Annexure E.
Notice of Scheme Meeting	the notice of meeting relating to the Scheme Meeting which is contained in Annexure D.
Performance Rights	rights granted to certain AWB executives to receive an AWB Share under and pursuant to the AWB Performance Rights Plan.
Proxy/Voting Form	the Proxy/Voting form which accompanies this Scheme Booklet.
Register	the share register of AWB.
Regulatory Authority	includes ASX or ASIC, a government or governmental, semi-governmental or judicial entity or authority, a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government and any regulatory organisation established under statute.
Related Body Corporate	has the same meaning given to it in the Corporations Act.
Relevant Interest	has the same meaning as given by sections 608 and 609 of the Corporations Act.
Representative	in respect of either AWB or Agrium, its Related Bodies Corporate and each director, officer, employee, advisor, agent or representative of that party and its Related Bodies Corporate.
Risk Factors	those risk factors set out in section 6.5.
Rural Services	the rural services division of AWB.
Scheme or Scheme of Arrangement	the scheme of arrangement between AWB and Scheme Shareholders under which all Scheme Shares will be transferred to Agrium in accordance with Part 5.1 of the Corporations Act, substantially in the form of Annexure B together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.
Scheme Booklet	this document.



Term	Meaning
<b>Scheme Consideration</b>	in respect of each Scheme Share, \$1.50 cash or, if a Special Dividend is paid prior to the Implementation Date, \$1.50 cash less the cash amount of such Special Dividend.
<b>Scheme Implementation Deed</b>	the Scheme Implementation Deed between AWB and Agrium dated 20 August 2010. A summary is set out in section 8.1, and a full copy can be obtained from AWB's website <a href="http://www.awb.com.au">www.awb.com.au</a> .
<b>Scheme Meeting</b>	the meeting of AWB Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act.
<b>Scheme Record Date</b>	5.00pm on the eighth Business Day after the Effective Date or such other date as AWB and Agrium agree.
<b>Scheme Resolution</b>	the resolution to agree to the terms of the Scheme.
<b>Scheme Share</b>	an AWB Share held by a Scheme Shareholder as at the Scheme Record Date.
<b>Scheme Shareholder</b>	each person who is an AWB Shareholder at the Scheme Record Date.
<b>Second Court Date</b>	the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
<b>Second Court Hearing</b>	the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
<b>Special Dividend</b>	a fully franked dividend which, if determined, will be paid by AWB to those persons registered as AWB Shareholders on the Special Dividend Record Date.
<b>Special Dividend Record Date</b>	the record date in respect of the proposed Special Dividend, being 7.00pm (Melbourne time) on 25 November 2010.
<b>Subsidiaries</b>	has the meaning given to it in the Corporations Act.
<b>Superior Proposal</b>	<p>a bona fide Competing Transaction other than the proposed merger between AWB and GrainCorp Limited announced to the ASX on 30 July 2010 (and not resulting from a breach by AWB of its obligations under the Scheme Implementation Deed) which the AWB Board, acting in good faith, determines is:</p> <p>(1) reasonably capable of being completed on a timely basis taking into account all aspects of the Competing Transaction, including without limitation, having regard to legal, regulatory and financial matters including any condition precedents; and</p> <p>(2) if it is completed, would be, more favourable to Scheme Shareholders than the Scheme, taking into account, all terms and conditions of the Competing Transaction.</p>
<b>Wheat Exports Australia</b>	Wheat Exports Australia established under the <i>Wheat Export Marketing Act 2008</i> (Cth).

## 11.2 Interpretation

In this Scheme Booklet:

- (1) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (2) words of any gender include all genders;
- (3) words importing the singular include the plural and vice versa;
- (4) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (5) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;
- (6) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (7) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;
- (8) a reference to time is a reference to Melbourne time;
- (9) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia;
- (10) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (11) the words "include", "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.



# Annexure A

## Independent Expert's Report





# LONERGAN EDWARDS & ASSOCIATES LIMITED

The Directors  
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5 October 2010

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**Subject: Proposed acquisition by Agrium by way of Scheme**

Dear Directors

## Introduction

- 1 On 16 August 2010, AWB Limited (AWB) announced that it had received an unsolicited proposal from Agrium Inc (Agrium) for the acquisition of all the issued capital of AWB for \$1.50 cash per share (the Proposal). The proposed acquisition of the shares is to be implemented by way of a Scheme of Arrangement between AWB and its shareholders (the Scheme), and is subject to a number of conditions precedent (as summarised in Section I of our report). At the time, the Proposal was conditional upon Agrium conducting limited due diligence with respect to certain financial and legal matters. On 20 August 2010, AWB announced that Agrium had completed its due diligence enquiries and had executed a Scheme Implementation Deed (the Deed) with AWB.
- 2 Under the Deed Agrium will acquire all of the issued capital of AWB for a cash consideration of \$1.50 per share, reduced by the cash amount of any dividend paid by AWB (the Scheme Consideration). The Deed allows AWB to pay a dividend of up to 20 cents per share, fully franked, subject to obtaining a favourable Australian Taxation Office (ATO) ruling. The dividend would be funded by an interest free loan from Agrium.
- 3 The Scheme is subject to the Court convening a meeting of AWB's shareholders. Under the *Corporations Act 2001 (Cth)* (Corporations Act), the Scheme must be approved by AWB shareholders if a resolution in favour of the Scheme is approved by a majority of AWB shareholders present (in person or by proxy) and voting at the Scheme meeting, and by 75% of the votes cast on the resolution. If this occurs, a second Court hearing will be held to approve the Scheme, which if approved, will become binding on AWB shareholders.

## AWB

- 4 AWB is one of Australia's leading agribusiness companies. AWB has two primary business streams:
  - (a) **Rural Services** – incorporating the Landmark distribution network providing agribusiness needs including merchandise, fertiliser, farm services and advice, wool and livestock agency services, insurance and real estate, as well as investments in Australian Wool Handlers (AWH), RD1 Ltd (RD1) and Landmark Global Exports (LGE). Landmark was acquired by AWB from Wesfarmers Limited (Wesfarmers) in 2003

Liability limited by a scheme approved under Professional Standards legislation

- (b) **Commodity Management** – acquisition and sales of commodities such as wheat, feedgrains, oilseeds and pulses, and the operation of storage and handling infrastructure and freight services both in Australia and internationally.

- 5 AWB is the corporate entity established from the Australian Wheat Board and the Wheat Industry Fund, both formerly being Australian commonwealth government institutions. AWB was listed in August 2001.

### Agrium

- 6 Agrium is a leading agricultural products and services company based in North America. The company is a leading global producer and marketer of agricultural nutrients and industrial products for agricultural and industrial markets. Agrium operates its business through three operating units. Its retail unit focuses on the North and South American markets, operating 826 retail centres, 37 terminals and 18 distribution centres as of 31 December 2009. The wholesale division produces, markets, and distributes crop nutrients globally. The advanced technologies unit produces and markets innovative nutrient related products.

### Purpose of report

- 7 There is presently no regulatory requirement for an independent expert's report (IER) to be prepared for AWB shareholders. However, the Directors' recommendation of the Scheme is subject to an independent expert concluding that the Scheme is in the best interests of AWB shareholders<sup>1</sup>.
- 8 Accordingly, the Directors of AWB have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Scheme is in the best interests of AWB shareholders and the reasons for that opinion. Consistent with the requirements of Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) our opinion also considers whether the Scheme is fair and reasonable to AWB shareholders (see Section II of our report).
- 9 LEA is independent of AWB and Agrium, and has no other involvement or interest in the proposed Scheme.

### Summary of opinion

- 10 LEA has concluded that the acquisition of AWB shares by Agrium under the Scheme is fair and reasonable and is in the best interests of AWB shareholders in the absence of a superior proposal.
- 11 We have arrived at this conclusion for the reasons set out below.

---

<sup>1</sup> Clause 2.1(a) of the Deed.





### Valuation of AWB

- 12 LEA has valued 100% of the shares in AWB on a controlling interest basis at between \$1.26 to \$1.52 per share, as summarised below:

Valuation of AWB		
	Low \$m	High \$m
Rural Services	715.0	840.0
Grain Marketing	275.0	300.0
Logistics and Other Investments	234.0	240.0
Pool Management and Harvest Finance	99.0	112.0
International Commodity Management	388.5	418.0
Corporate overheads	(176.0)	(180.0)
Enterprise value <sup>(1)</sup>	1,535.5	1,730.0
Other assets	50.0	70.0
Net debt <sup>(2)</sup>	(550.0)	(550.0)
Equity value – controlling interest basis	1,035.5	1,250.0
Number of shares on issue (millions) <sup>(3)</sup>	824.3	824.3
AWB value per share – controlling interest basis (\$)	\$1.26	\$1.52
Value of Scheme Consideration per share (\$) <sup>(4)</sup>	\$1.50	\$1.50

**Note:**

- 1 Equity value in the case of Pool Management and Harvest Finance.
- 2 Including AWB's share of the average net debt attributable to its investments in associates.
- 3 Assuming the exercise of performance rights.
- 4 Subject to ATO approval, the Deed allows AWB to pay a dividend of up to 20 cents per share. If a dividend is paid the Scheme Consideration of \$1.50 per share will be reduced by a corresponding amount. Due to the benefit of Australian franking credits (of up to 8.6 cents per share) attached to the dividend; the value of the Scheme Consideration to some Australian resident shareholders in AWB may be greater than \$1.50 per share (on a pre-tax basis).

### Value of Scheme Consideration

- 13 In evaluating the Scheme we have adopted the Scheme Consideration of \$1.50 cash per share to be received by AWB shareholders. LEA notes that the cash consideration of \$1.50 may be reduced to the extent that a dividend (of up to 20 cents per share) will be paid by AWB.
- 14 Due to the benefit of Australian franking credits (of up to 8.6 cents per share<sup>2</sup>) attached to the dividend, the value of the Scheme Consideration to some Australian resident shareholders in AWB may be greater than \$1.50 per share.

### Assessment of the Scheme

- 15 We summarise below the likely advantages and disadvantages for AWB shareholders if the Scheme is approved.

<sup>2</sup> Based on a 20 cents per share fully franked dividend.

### ***Advantages***

16 The Scheme has the following benefits to AWB shareholders:

- (a) the Scheme Consideration of \$1.50<sup>3</sup> per share is at the top end of our assessed value range for 100% of AWB of \$1.26 to \$1.52 per share on a controlling interest basis, and is therefore fair and reasonable and is in the best interests of AWB shareholders when assessed under the guidelines set out in ASIC RG 111
- (b) the Scheme Consideration represents a significant premium to the recent stock market prices of AWB shares prior to the announcement on 30 July 2010 of the now withdrawn proposed merger (of equals) between AWB and GrainCorp Limited (GrainCorp), and the announcement on 16 August 2010 of the initial approach by Agrium
- (c) the premium exceeds observed premiums generally paid to target company shareholders in successful takeovers
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of AWB shares is likely to trade at a significant discount to our valuation and the Scheme Consideration (consistent with the portfolio nature of individual shareholdings).

### ***Disadvantages***

- 17 The proposed Scheme Consideration of \$1.50 will not be paid to AWB shareholders until after the Scheme is approved which is not expected to occur until early December 2010.
- 18 AWB shareholders should note that if the Scheme is approved they will no longer hold an interest in AWB. AWB shareholders will therefore not participate in any future value created by the company as a result of on-going operations over and above that reflected in the Scheme Consideration.

### **Conclusion**

- 19 Given the above analysis, we consider the acquisition of AWB shares by Agrium under the Scheme is fair and reasonable and is in the best interests of AWB shareholders in the absence of a superior proposal.

### **General**

- 20 In preparing this report we have considered the interests of AWB shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 21 The impact of approving the Scheme on the tax position of AWB shareholders depends on the individual circumstances of each investor. AWB shareholders should read section IX of the Scheme Booklet (Taxation Implications for Shareholders) and consult their own professional advisers if in doubt as to the taxation consequences of the Scheme.

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<sup>3</sup> Comprising both dividend and share consideration.

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- 22 The ultimate decision whether to approve the Scheme should be based on each AWB shareholders' assessment of their own circumstances. If AWB shareholders are in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the Scheme and the reasoning behind our opinion, we recommend that AWB shareholders read the remainder of our report.

Yours faithfully



Wayne Lonergan  
Authorised Representative



Craig Edwards  
Authorised Representative

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## I Key features of the Scheme

### Terms

- 23 On 16 August 2010, AWB announced that it had received an unsolicited proposal from Agrium for the acquisition of all the issued capital of AWB for \$1.50 cash per share (the Proposal). The proposed acquisition of the shares is to be implemented by way of a Scheme of Arrangement between AWB and its shareholders (the Scheme), and is subject to a number of conditions precedent. At the time of that announcement, the Proposal was conditional upon Agrium conducting limited due diligence with respect to certain financial and legal matters. On 20 August 2010, AWB announced that Agrium had completed its due diligence enquiries and had executed a Deed with AWB.
- 24 Under the Scheme Implementation Deed dated 20 August 2010 (the Deed), Agrium will acquire all of the issued capital of AWB for a cash consideration of \$1.50 per share, reduced by the cash amount of any dividend paid by AWB (the Scheme Consideration). The Deed allows AWB to pay a dividend of up to 20 cents per share, fully franked, subject to obtaining a favourable ATO ruling. The dividend is to be funded by an interest free loan from Agrium.

### Conditions

- 25 The Scheme is subject to the satisfaction of a number of conditions precedent, including the following, which are outlined in the Deed:
- (a) the approval of the Foreign Investment Review Board (FIRB) (Australia) and the New Zealand Overseas Investment Office and other relevant regulatory authorities
  - (b) AWB shareholder approval at a Court convened meeting under the Corporations Act
  - (c) approval of the Scheme by the Court in accordance with s411(4)(b) of the Corporations Act
  - (d) AWB shareholders approving an amendment to rule 24 of the AWB constitution (the 10% shareholding cap) to permit the acquisition by Agrium of AWB shares under the Scheme
  - (e) no temporary restraining order, preliminary or permanent injunction or other order issued by any government agency or other legal restraint or prohibition preventing the transaction
  - (f) no “prescribed occurrences” (as set out in Clause 1.1 of the Deed) having occurred in respect of AWB
  - (g) Agrium and AWB representations and warranties set out in Schedules 1 and 2 of the Deed respectively being true and correct at 8am on the Second Court Date.
- 26 In addition, under the Deed the AWB Board is permitted and intends to give notice to the holders of AWB performance rights as at a date on or after the First Court Date that their performance rights have vested (on such terms as the AWB Board may determine). We have therefore treated these rights as additional shares.

**Resolution**

- 27 AWB shareholders will be asked to vote on the Scheme in accordance with the resolution contained in the notice of Scheme meeting accompanying the Scheme Booklet.
- 28 If the resolution is passed by the requisite majorities, AWB must apply to the Court for orders approving the Scheme, and if that approval is given, lodge the orders with ASIC and do all things necessary to give effect to the Scheme. Once the Court approves the Scheme it will become binding on all AWB shareholders.

## II Scope of our report

### Purpose

- 29 The Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations) prescribes information to be sent to shareholders in relation to a members' scheme of arrangement pursuant to s411 of the Corporations Act.
- 30 Regulation 5.1.01 and Part 3 of Schedule 8 of the Corporations Regulations provide that, where a party to the transaction holds not less than 30% of the voting shares in the company, or where any of its directors are also directors of the company the subject of the scheme, the explanatory statement must be accompanied by an IER assessing whether the proposed scheme is in the best interests of shareholders and state reasons for that opinion.
- 31 Prior to entering into the Deed, Agrium had no shareholding entitlement in AWB and was not represented on AWB's Board. Accordingly, there is no regulatory requirement for an IER to be prepared for AWB shareholders pursuant to s411 of the Corporations Act.
- 32 However the Scheme is subject to a number of conditions precedent, including the AWB Board unanimously publicly recommending that AWB shareholders vote in favour of the Scheme. This recommendation was given on 24 August 2010 subject to an independent expert concluding that the Scheme is in the best interests of AWB shareholders. Accordingly, the Directors of AWB have requested that LEA prepare an IER stating whether, in LEA's opinion, the proposed Scheme is in the best interests of AWB shareholders and the reasons for that opinion.
- 33 This report has been prepared by LEA for the benefit of AWB shareholders to assist them in considering the resolutions to approve and implement the Scheme. Our report will accompany the Notice of Scheme Meeting and Scheme Booklet to be sent to AWB shareholders. The purpose of our report is to determine whether, in our opinion, the Scheme is in the best interests of AWB shareholders.
- 34 The ultimate decision whether to approve the Scheme should be based on each AWB shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Scheme or matters dealt with in this report, shareholders should seek independent professional advice.

### Basis of assessment

- 35 In preparing our report, we have given due consideration to the Regulatory Guides issued by ASIC including, in particular, RG 111.
- 36 As the Scheme will result in 100% of the securities in AWB being held by Agrium, RG 111 requires that we provide an opinion on whether the Scheme Consideration is "fair" and "reasonable" to the shareholders of AWB. Our opinion has also considered whether the Scheme is in the best interests of AWB shareholders.





- 37 RG 111 distinguishes “fair” from “reasonable” and considers:
- (a) an offer to be “fair” if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company
  - (b) an offer to be “reasonable” if it is fair. An offer may also be “reasonable” if, despite not being “fair” but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.
- 38 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a Scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for security holders to vote in favour of the Scheme in the absence of a higher offer.
- 39 In our opinion, if the Scheme is “fair” and “reasonable” under RG 111 it must also be “in the best interests” of AWB shareholders.
- 40 Our report has therefore considered:
- (a) the market value of 100% of the shares in AWB
  - (b) the value of the Scheme Consideration offered by Agrium
  - (c) the extent to which (a) and (b) differ (in order to assess whether the Scheme is “fair” under RG 111)
  - (d) the extent to which a control premium is being paid to AWB shareholders
  - (e) the extent to which AWB shareholders are being paid a share of any synergies likely to be generated pursuant to the proposed transaction
  - (f) the listed market price of the shares in AWB, both prior to and subsequent to the announcement of the proposed Scheme
  - (g) the value of AWB to an alternative offeror and the likelihood of a higher alternative offer being made for AWB prior to the date of the Scheme meeting
  - (h) the likely market price of AWB shares if the proposed Scheme is not approved
  - (i) the advantages and disadvantages of the Scheme from the perspective of AWB shareholders
  - (j) other qualitative and strategic issues associated with the Scheme.

### **Limitations and reliance on information**

- 41 Our opinions are based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 42 Our report is also based upon financial and other information provided by AWB. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and

review for the purpose of forming an opinion on the Scheme from the perspective of the AWB shareholders. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. None of these additional tasks have been undertaken.

- 43 We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).
- 44 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 45 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets, particularly businesses related to the agricultural industry, with consequential valuation impacts.
- 46 In forming our opinion, we have also assumed that:
- (a) the information set out in the Scheme Booklet is complete, accurate and fairly presented in all material respects
  - (b) if the Scheme becomes legally effective, it will be implemented in accordance with the terms set out in the Deed and the terms of the Scheme itself.

### III Profile of AWB

#### Overview

- 47 AWB is one of Australia's leading agribusiness companies, consisting of two primary business streams:
- (a) **Rural Services** – incorporating the Landmark distribution network providing agribusiness needs including merchandise, fertiliser, farm services and advice, wool and livestock agency services, insurance and real estate, as well as investments in AWH, RD1 and LGE. Landmark was acquired by AWB from Wesfarmers in 2003
  - (b) **Commodity Management** – acquisition and sales of commodities such as wheat, feedgrains, oilseeds and pulses and the operation of storage and handling infrastructure and freight services both in Australia and internationally.

#### History

- 48 AWB's beginnings date back to the late 1930s when the Australian Wheat Board was established as a government authority by Wheat Acquisition Regulations contained in the National Security Act 1939 in order to oversee the marketing, storage, shipping, pooling and payment of the country's domestic and export wheat output. This essentially granted the Australian Wheat Board a monopoly over these markets (termed 'single desk').
- 49 In 1989 the Wheat Marketing Act was established and stripped the domestic grains market from the Australian Wheat Board's control, leading to the creation of several new businesses. This same legislation also established the Wheat Industry Fund, which was to be administered by the Australian Wheat Board and imposed compulsory levies on wheat sales.
- 50 In June 1998, the Australian Wheat Board was corporatised, with the assets and liabilities of the statutory authority (other than the Wheat Industry Fund) transferred to AWB Limited and AWB (International) Limited.
- 51 In July 1999, the government transferred the Wheat Industry Fund to AWB and subsequently privatised AWB, granting non-tradeable, non-transferable, 'A class' shares to grain growers that averaged production of at least 100 tonnes over a rolling three year period and 'B class' shares to shareholders in the Wheat Industry Fund. In August 2001, AWB was publicly floated with its 'B class' shares listed on the Australian Securities Exchange (ASX).
- 52 AWB Geneva was established in 2002 as a platform for AWB to grow its international presence and business, allowing AWB to strengthen, deepen and expand customer relationships in the Mediterranean basin, the Middle East and North Africa through the supply of European, North and South American grains.
- 53 On 29 August 2003, AWB acquired Landmark from Wesfarmers for a total enterprise value of \$825 million<sup>4</sup>. Landmark is one of Australia's largest distributors of farm input materials including merchandise, fertiliser and chemicals, as well as having significant interests in wool and livestock marketing, real estate sales, and finance and insurance.

<sup>4</sup> Source: AWB ASX announcement, *AWB acquires Landmark from Wesfarmers*, 29 August 2003.

- 54 From 2005 AWB was a subject of the Oil-For-Food Inquiry in relation to funds being paid by AWB to the former Iraqi regime. This is discussed in further detail below.
- 55 The introduction of the Wheat Export Marketing Act 2008 removed AWB's (monopoly) 'single desk' export status from 1 July 2008, introducing competition into bulk wheat export marketing. The new regulator, Wheat Exports Australia (WEA), subsequently approved a number of other export licenses to domestic and multi-national grain traders.
- 56 On 3 September 2008, shareholders approved amendments to AWB's constitution, resulting in the redemption of 'A class' shares. On 22 October 2008 AWB adopted a new commercial constitution which ensured AWB maintained some form of grain trading activity, maintained a 10% cap on shareholdings and mandated that (at all times) at least two AWB Directors must be directly or indirectly involved in agricultural production on a commercial scale<sup>5</sup>.
- 57 On 22 July 2009, AWB announced its decision to discontinue its Brazilian and Uruguay businesses (AWB Brasil) following an assessment that the Brazilian business model could not be operated in a manner which aligned with the strategic objectives of AWB. At the same time AWB also announced it was reviewing its 50/50 joint venture with Elders Limited (Elders) in ELF Australia Pty Ltd (ELF) (the parent of Hi-Fert) and that it was their intention to sell the asset at the completion of that review (the review process remains on-going as at the date of this report).
- 58 On 8 December 2009, AWB announced the sale of the loan and deposit books of Landmark Financial Services (LFS) to ANZ (the sale was completed on 1 March 2010).
- 59 On 30 March 2010, AWB announced that it had signed a Memorandum of Understanding with Gaviion Group, LLC (Gaviion) regarding the sale of AWB Geneva and the formation of a 50/50 joint venture of the AWB Australian Commodity Management (ACM) business. The transaction was superseded on 30 July 2010 when AWB announced that it had entered a proposed merger (of equals) with GrainCorp. An alternative all-cash offer has subsequently been received from Agrium, which is the subject of this report.

### Current operations

- 60 AWB employs approximately 2,000 people<sup>6</sup> with approximately 75% of these employees working in rural and remote communities<sup>7</sup>. The company's client base consists of approximately 110,000 customers. Following the divestment of LFS, AWB operates two primary business segments, Rural Services and Commodity Management.

<sup>5</sup> Source: AWB ASX announcement, *AWB appoints new chairman and adopts new Constitution*, 22 October 2008.

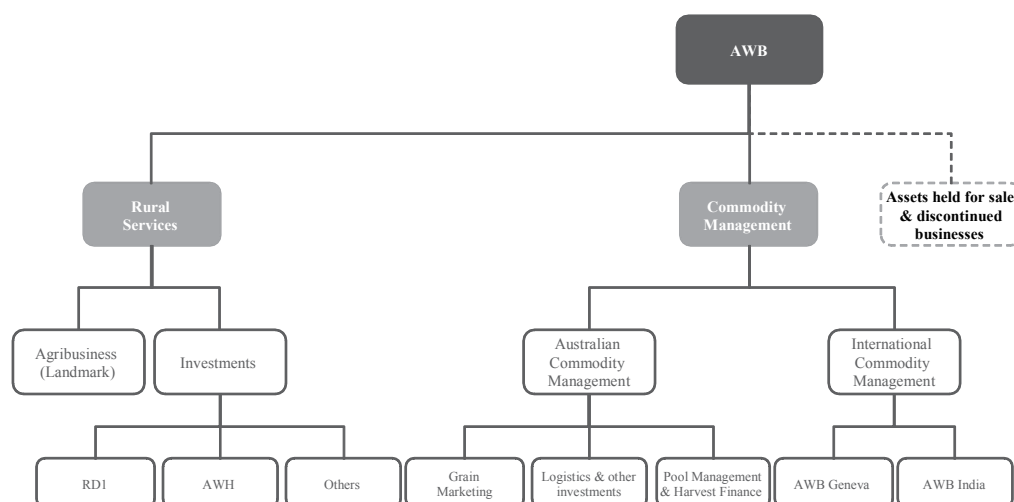
<sup>6</sup> Source: AWB management.

<sup>7</sup> Ibid



## Organisational structure and business operations

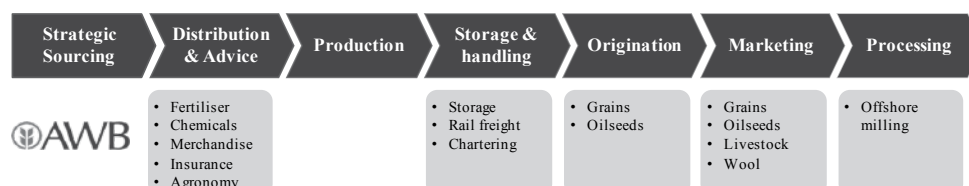
### AWB – group structure



Source: AWB

- 61 The following summarises AWB's operations along the agricultural supply chain.

### AWB – business operations



Source: AWB management.

### Rural Services

- 62 Rural Services incorporates the Landmark distribution network and 50% investments in each of Australian Wool Handlers (AWH) and RD1 and a 51% investment in LGE.

### *Landmark*

- 63 Landmark is one of Australia's largest distributors of fertiliser and agricultural merchandise, comprising over 350 outlets across Australia and New Zealand, including 202 corporate stores, 88 franchise stores, four joint venture stores and 56 'wholesale members'<sup>8</sup>, with the majority of earnings derived by the corporate stores. Landmark also operates as "agents" in the livestock, wool, real estate and insurance activities.
- 64 From mid-2007, the Landmark business began a transformational process aimed at improving productivity and increasing value from both existing and new markets. This process, which involves the implementation of a number of initiatives, is broadly aimed at reducing overhead costs, improving margin management, improving customer relationship management, reducing supply chain costs and growing the wholesale distribution channel. The benefits of this process are expected to be fully realised by FY13.
- 65 As part of the transformation, in May 2010 Landmark began the rollout of a new SAP system in its retail stores. This is expected to improve productivity through reducing branch administration overhead costs, enhancing pricing controls and margins<sup>9</sup>, improving the service experience for customers, increasing electronic integration with vendors and increasing real-time management information. The SAP implementation is expected to be completed this calendar year.

### *Merchandise*

- 66 Landmark stores located across Australia stock a range of agricultural chemicals, animal health products, farm equipment and general merchandise. The business operates retail operations, which sell products sourced from preferred suppliers, and wholesale operations, which provide products to independent businesses for resale.

### *Fertiliser*

- 67 Landmark is a significant supplier of fertiliser in Australia, participating in the distribution of approximately 1.0 million tonnes of fertiliser per annum as well as retailing liquid, trace element and specialist fertilisers from a range of suppliers<sup>10</sup>. Landmark has supply arrangements with three major fertiliser suppliers, being CSBP, Incitec Pivot and Hi-Fert<sup>11</sup>.

### *Livestock*

- 68 Landmark offers a range of livestock marketing options for buying and selling livestock in Australia, with 50% of livestock sold via auction, as well as arranging forward contracts between producers and processors<sup>12</sup>. Landmark is also a major supplier of sheep and cattle to the live export trade. The segment handles approximately 1.8 million cattle and 10 million sheep annually<sup>13</sup>.

<sup>8</sup> Independently owned wholesale merchandise businesses that are branded 'Landmark Member'.

<sup>9</sup> Through better margin control.

<sup>10</sup> Source: AWB ASX announcement, "A Day on the Farm", 22 June 2010.

<sup>11</sup> In which AWB has a 50% interest.

<sup>12</sup> Source: AWB management.

<sup>13</sup> Source: AWB ASX announcement, "A Day on the Farm", 22 June 2010.

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*Wool*

- 69 Landmark is involved in wool broking operations through major wool stores and wool-selling centres around Australia, as well as wool handling and warehousing, which are carried out by AWH. Landmark handles approximately 380,000 bales of wool per year<sup>14</sup>, providing both traditional broking and auction selling services as well as some risk management services.

*Real estate*

- 70 Landmark markets large rural properties, lifestyle properties and rural residential real estate and conducts clearing sales in country areas throughout Australia.

*Insurance*

- 71 Landmark facilitates insurance services to rural and regional Australia through its relationships with CGU as an authorised representative and with Wesfarmers Federation Insurance Limited (WFI) as a distributor. In addition to the two supplier model, Landmark has two operating models in their Insurance business, one based in Western Australia and the other in all other States and Territories along with a small Specialty Risk business covering services not provided by CGU and WFI. Within Western Australia, Landmark has an exclusive relationship with WFI whereby all leads are given to WFI and Landmark receives a commission on all rural and crop business written in Western Australia. Within all other states Landmark has a dual supplier model and employs Insurance Sales specialists who are located throughout the branch network. Commission rates vary by supplier and product with both CGU and WFI also providing an annual growth incentive bonus based on year on year performance. Landmark has also begun a process of expanding beyond the core Landmark client base into offering services to the broader business community in rural locations.

*ANZ partnership*

- 72 The Landmark lending and deposit books were sold to ANZ in March 2010, with the sale including the transfer of the vast majority of sales, middle and back office staff. Concurrent with this sale was the establishment of a three year agreement with ANZ whereby Landmark would receive a trail commission on the lending book transferred, and varying upfront commissions on a range of products and services where the client is referred to ANZ through the Landmark network.

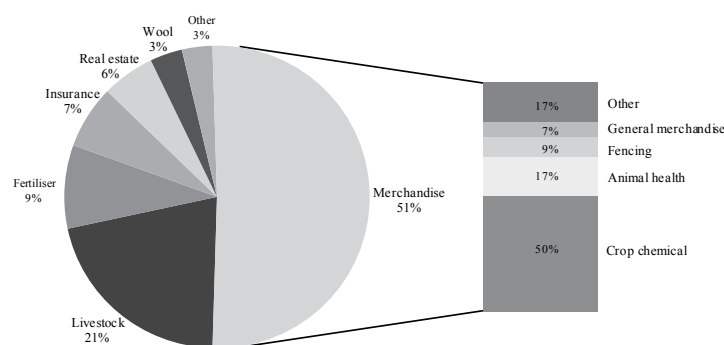
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<sup>14</sup> Source: AWB management, Landmark 2010 full year forecast.

### Relative gross margin contributions

- 73 The following chart sets out the (broadly indicative) relative gross margin contributions of the Landmark segment, excluding profits from associates.

Landmark – indicative relative gross margin contributions<sup>(1)</sup>



**Note:**

1 Excludes profits from RD1, AWH and other associates attributable to Rural Services as per paragraph 107.

Source: AWB management.

### RD1, AWH and LGE

- 74 Landmark has a 50% interest in RD1, a retailer of agricultural services to the New Zealand dairy market, with the remaining 50% held by Fonterra. The business has a network of 55 stores and employs over 400 staff<sup>15</sup>.
- 75 AWH is 50% owned by Landmark, with Elders owning the remaining 50%. The business was created to provide economies in warehousing and export services for Australia's wool industry. Specialising in wool logistics, AWH is Australia's largest wool handling provider, handling approximately two-thirds of Australia's wool clip. AWH operates 15 wool receival locations across Australia comprising a total of approximately 900,000 square metres of under-roof housing<sup>16</sup>.
- 76 Landmark also has a 51% interest in LGE, with Wang & Co. owning the remaining 49%. This business is involved in the live export of cattle, with a major proportion of earnings derived from the export of dairy cattle to China.

### Commodity Management

- 77 AWB's Commodity Management segment provides services and products required to market agricultural commodities from farm gate to first stage processors. The segment comprises ACM and International Commodity Management (ICM).

<sup>15</sup> Source: RD1 website, accessed 30 August 2010.

<sup>16</sup> Source: AWH website, accessed 30 August 2010.



### *Australian Commodity management*

#### *Grain marketing*

- 78 The grain marketing segment provides growers with cash sale options before, during and after harvest, primarily through its cash based forward contracts. The business serves a large number of international and domestic grain processors, in competition with a range of other grain trading houses. Whilst predominantly focusing on wheat, the segment is also involved in the acquisition and sale of other agricultural commodities including sorghum, pulses, barley and oilseeds. The segment manages trading positions, within defined risk limits.
- 79 The RiskAssist business, which commenced operations in April 2001 as a specialist risk management unit that provided products and advice to growers, is no longer in operation (the only residual activities are debtor collection).

#### *Logistics and Other Investments*

- 80 AWB provides bulk ocean freight chartering and container management services to support its grain marketing and pool management operations. AWB GrainFlow Pty Ltd (GrainFlow), a wholly owned subsidiary of AWB, operates 22 regional storage and handling facilities across Australia's eastern states<sup>17</sup>. In addition, AWB has investments in several entities located at various points along the supply chain, including<sup>18</sup>:
- (a) a 50.0% interest in a joint venture operation, Australian Independent Commodity Handlers (AICH). AICH owns a storage and handling facility known as the Melbourne Port Terminal
  - (b) a 51.0% share of AWB-Zennoh Limited (AZL), a joint venture commodity trading company established between AWB and Japan's largest agricultural co-operative – Zennoh
  - (c) a 30.0% share in Five Star Flour Mills Company SAE, the largest private flour mill and producer of premium grade flour in Egypt, and a total holding of 32.7%<sup>19</sup> in Five Star Feed Mills and Animal Production Company SAE, also located in Egypt
  - (d) a 7.0% share in Shenzhen Southseas Grain Industries Limited, consisting of a large integrated flour and feed mill established in 1992 to service the premium market segments in southern China.

#### *AWB Pool Management Services and Harvest Finance*

- 81 AWB manages the AWB pools, aiming to maximise net pool returns for growers who deliver into AWB pools in return for a management fee for services rendered. A pool is a system by which grain is acquired, hedged, marketed and accounted for separately according to its specified quality and variety. Wheat and barley pools are designed to provide a more consistent quality supply to customers by allowing growers to aggregate their production with that of other growers, whilst facilitating consistent market access and more stable returns to pool participants. As noted above (paragraph 49), under the Wheat Marketing Act 1989, the AWB National Pool previously held a monopoly over the export of bulk wheat. On 1 July

<sup>17</sup> Source: GrainFlow website, accessed 30 August 2010.

<sup>18</sup> Source: AWB 2010 half-year results – management discussion and analysis.

<sup>19</sup> Consists of a 23.7% direct interest and a 9.0% indirect interest through Five Star Flour Mills Company SAE.

2008, however, this was repealed with the introduction of the Wheat Export Marketing Act 2008, abolishing the 'single desk' system that had previously existed.

- 82 AWB currently charges a flat price service fee of \$6.90 per tonne for deliveries into the 2009-10 pools, as compared to the prior management fee calculated as 1.75% of the gross pool return. This alignment of flat priced revenue with a fixed cost base has allowed the business to better manage productivity, although profitability is sensitive to crop volumes.
- 83 AWB Harvest Finance (Harvest Finance) commenced operations on 1 October 2003, replacing AWB Finance Limited. The entity is responsible for providing growers delivering into the AWB pools with a suite of financing alternatives.

### ***International Commodity Management***

#### ***AWB Geneva***

- 84 AWB Geneva was established in 2002 as a platform for AWB to grow its international presence and business through the trading and supply of commodities to existing and new customers. AWB Geneva's activities are grouped into the following principal activities:
- (a) **oilseeds** – focused on the marketing of oilseeds and edible oils to Asia, Europe and the Middle East
  - (b) **grain** – trading of wheat, barley and corn to the Middle East, Europe and Africa
  - (c) **trade finance** – provision of finance solutions to suppliers and customers
  - (d) **freight** – provision of freight chartering services to AWB as well as to third party providers.

#### ***AWB India***

- 85 AWB India works with domestic processors to supply domestic and imported grains, pulses and oilseeds through marketing programs that are developed in collaboration with Australia and Geneva business units. Occasionally, AWB India will export grains and grain products, such as corn, wheat and soybean meal.

### **Assets held for sale**

- 86 Refer to paragraphs 100 to 103.

### **Equity structure**

- 87 When AWB was privatised in July 1999, AWB had a dual share equity structure with 'A class' shares being distributed to growers averaging over 100 tonnes over a three year rolling period, and 'B class' shares to shareholders in the Wheat Industry Fund on the basis of their proportionate equity in the fund. Under this structure, 'A class' shares were not entitled to receive dividends, and only one 'A class' share was issued to each grower. 'A class' shareholders had the right to elect a majority of the AWB Board of Directors, with voting entitlements proportionate to wheat tonnage delivered to the AWB Group. In contrast, 'B class' shares could be owned by either wheat growers or non-growers, having the right to receive dividends and elect the minority of the AWB Board of Directors.

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- 88 Following amendments to the AWB Constitution in September 2008, AWB reverted to a single share structure by redeeming all 'A class' shares. In October 2008, AWB adopted a new Constitution which ensured AWB maintained some form of grain trading activity, maintained a 10% cap on shareholdings (for a period of three years, ending on 22 October 2011) and specified that (at all times) at least two AWB Directors must be directly or indirectly involved in agricultural production on a commercial scale.

### Statement of financial performance

- 89 The financial performance of AWB for the three years to 30 September 2009 and six months to 31 March 2010 is summarised below:

<b>AWB – statement of financial performance<sup>(1),(2)</sup></b>				
	<b>30 Sep 07 Audited \$m</b>	<b>30 Sep 08 Audited \$m</b>	<b>30 Sep 09 Audited \$m</b>	<b>31 Mar 10 Reviewed \$m</b>
Total revenue from continuing operations	4,420.0	6,482.8	6,472.9	2,991.6
EBITDA before significant non-recurring items	130.2	200.5	155.5	51.3
Depreciation and amortisation	(40.5)	(35.8)	(26.6)	(13.4)
EBIT before significant non-recurring items	89.7	164.7	128.9	37.9
Net finance costs <sup>(3)</sup>	(29.6)	(55.0)	(47.4)	(12.2)
EBT before significant non-recurring items	60.1	109.7	81.5	25.7
Share of profits of associates <sup>(4)</sup>	9.0	10.5	8.8	7.1
Significant non-recurring items <sup>(5)</sup>	(41.7)	(35.0)	(145.6)	(51.7)
Income tax benefit/(expense) <sup>(6)</sup>	(18.3)	(25.0)	15.1	7.3
Net profit/(loss) after tax	9.1	60.2	(40.3)	(11.6)
Less profit attributable to minority interests	(0.4)	(1.0)	(2.9)	(1.2)
Less result of discontinued operations	18.5	1.1	(207.7) <sup>(7)</sup>	(52.0)
Net profit/(loss) attributable to members of AWB <sup>(8)</sup>	27.1	60.3	(250.8)	(64.8)
Underlying profit before tax as reported by AWB <sup>(9)</sup>		131.5	93.0	32.8

**Note:**

1 Figures presented for continuing operations exclude the results of AWB Brasil, Hi-Fert and LFS.

2 Rounding exists in the calculations.

3 Reported net finance costs adjusted as follows:

Reported net finance costs	(37.0)	(61.2)	(53.3)	(12.2)
AWB Brasil net finance costs	5.6	-	-	-
LFS net finance costs	1.9	6.3	6.1	-
Insurance and Stocklease net finance costs	(0.1)	(0.1)	(0.2)	-
Total net finance costs	(29.6)	(55.0)	(47.4)	(12.2)

4 Being the contribution from the entities set out at paragraph 107.

**Note cont:**

5 Significant non-recurring items comprise:

Realised gains/(losses) on strategic investments	-	(1.7)	1.1	-
Gain on sale of CME shares and KCBT membership	-	6.6	-	-
Asset impairment adjustment	(3.6)	-	-	-
Provision for Standard Chartered Bank litigation	-	(26.4)	(1.5)	-
Costs associated with "Oil for Food Inquiry" legacy issues	(6.6)	(13.4)	(18.6)	(6.5)
Impact of revaluation of employee share loans	(9.6)	-	(2.7)	(3.5)
Strategic project costs	-	-	(3.0)	(1.7)
Restructuring costs	(21.9)	-	(11.2)	(0.5)
Intercompany write-offs <sup>(10)</sup>	-	-	(109.7)	-
Settlement of Watson Class Action	-	-	-	(39.5)
Total significant non-recurring items (net losses)	(41.7)	(35.0)	(145.6)	(51.7)

6 Reported income tax benefit/(expense) adjusted as follows:

Reported net income tax benefit/(expense)	(24.9)	(28.4)	13.6	7.3
AWB Brasil income tax benefit	1.4	-	-	-
LFS income tax benefit	7.2	6.0	3.9	-
Insurance and Stocklease income tax expense	(1.9)	(2.6)	(2.5)	-
Net income tax benefit/(expense)	(18.3)	(25.0)	15.1	7.3

7 Includes a goodwill impairment charge of \$119.7 million in relation to LFS.

8 As reported.

9 Being EBT for continuing operations (as at that date) before significant non-recurring items:

EBT before significant non-recurring items (as above)	109.7	81.5	25.7
Share of profits of associates (as above)	10.5	8.8	7.1
Sub-total	120.1	90.3	32.8
Result of discontinued LFS	26.3	17.1 <sup>(11)</sup>	-
Net finance costs of discontinued LFS	(6.3)	(6.1)	-
EBIT of Insurance and Stocklease <sup>(12)</sup>	(8.7)	(8.5)	-
Net finance costs of Insurance and Stocklease	0.1	0.2	-
Underlying PBT	131.5	93.0	32.8

10 Relates to AWB Geneva and AWB Australia receivables from AWB Brasil that have been written-off during the year.

11 Does not include the goodwill impairment charge of \$119.7 million in relation to LFS.

12 Refer to paragraph 98.

**Source:** AWB Annual Reports, Interim Reports, relevant Management Discussion and Analysis and LEA analysis.

**Year ended 30 September 2008<sup>20</sup>**

90 AWB experienced significantly higher earnings for the year ended 30 September 2008, recording an EBITDA result from continuing operations (before significant non-recurring items) of \$200.5 million<sup>21</sup>, an increase of 54.0% over the prior corresponding period. This result was largely driven by a rebound in the ACM business as a result of improved trading (higher margins and volumes) in wheat, canola and pulses, and a record result for Rural Services, which benefited from increased agricultural activity and higher input prices for chemical and fertilizer across the country. Following the implementation of the Wheat Export

<sup>20</sup> Source: AWB 2008 full year results – management discussion and analysis.

<sup>21</sup> Excluding share of profits of associates.



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Marketing Act 2008 on 1 July 2008, AWB lost its 'single desk' export status, with Harvest Finance and AWB Australia subsequently accredited to export wheat.

**Year ended 30 September 2009<sup>22</sup>**

- 91 AWB experienced a 22.4% decline in EBITDA compared to the prior corresponding period, recording an EBITDA result from continuing operations (before significant non-recurring items) of some \$155.5 million<sup>23</sup>. The decline was primarily driven by the significantly reduced EBITDA performance of Rural Services which was affected by lower agricultural product prices and lower margins in the crop chemical and fertiliser businesses. This impact was further compounded by a decline in the EBITDA of the Pool Management and Harvest Finance business reflecting lower production in south-east Australia and increased levels of grain sold for cash in the domestic market, thereby resulting in lower pool volumes and a lower demand for Harvest Finance products.
- 92 In the first full year of deregulation of the Australian wheat export market, Harvest Finance and AWB Australia exported over 25% of the 2008-09 wheat crop<sup>24</sup>. These improved volumes, however, were offset by reduced margins as a result of the increased wheat harvest and the reduced volatility in wheat prices which resulted in a 20.4% decline in the EBITDA of the Grain Marketing business.
- 93 During the year AWB undertook a \$459 million capital raising via a non-renounceable entitlement offer and an institutional placement to restructure the debt profile of the group.

**Half-year ended 31 March 2010<sup>25</sup>**

- 94 For the six months ended 31 March 2010, AWB reported an EBITDA result from continuing operations (before significant non-recurring items) of \$51.3 million<sup>26</sup>, down 42.7% on the prior corresponding period. This decline was primarily attributed to a 62.8%<sup>27</sup> decrease in EBITDA of the ACM business, primarily the Grain Marketing segment due to aggressive price competition in up-country origination and a more competitive environment at the point of export. The EBITDA of the Landmark Rural Services business increased by 16.1%<sup>28</sup> (on the prior corresponding period) due to higher volumes following improved conditions in south eastern Australia, increased market share in certain categories and lower costs.

**Market guidance for year ending 30 September 2010<sup>29</sup>**

- 95 On 30 July 2010, along with the announcement of the proposed merger with GrainCorp, AWB announced that its earnings before tax (EBT) and significant non-recurring items for the year ending 30 September 2010 were to be within the range of \$75 million to \$95 million compared to previous guidance of \$85 million to \$110 million.

<sup>22</sup> Source: AWB 2009 full year results – management discussion and analysis.

<sup>23</sup> Excluding share of profits of associates.

<sup>24</sup> Source: AWB 2009 full-year results – management discussion and analysis.

<sup>25</sup> Source: AWB 2010 half-year results – management discussion and analysis.

<sup>26</sup> Excluding share of profits of associates.

<sup>27</sup> Excluding share of profits of associates. Source: AWB 2010 half-yearly results – Appendix 4D.

<sup>28</sup> Excluding share of profits of associates. Source: AWB 2010 half-yearly results – Appendix 4D.

<sup>29</sup> Source: AWB ASX announcement, *Merger Announcement*, 30 July 2010.

- 96 The Landmark business is expected to be the largest contributor to the group's EBT with a result materially higher than the prior corresponding period due to improved margins, increased market share and higher productivity.
- 97 This, however, was expected to be offset by the significantly lower performance of the ACM business due to the continuation of difficult market conditions combined with lower margins in wheat marketing. The profit outlook for the remaining businesses remained broadly unchanged.

### Segmental performance

- 98 A summary of the historical performance of AWB's continuing operations, by segment, is set out below.

<b>AWB – segmental performance for continuing operations<sup>(1),(2)</sup></b>				
	<b>30 Sep 07</b>	<b>30 Sep 08</b>	<b>30 Sep 09</b>	<b>31 Mar 10</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Reviewed</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>EBITDA</b>				
Rural Services <sup>(3)</sup>	51.8	82.8	45.6	20.2
Grain marketing	2.8	55.3	44.0	(0.7)
Logistics and other investments	3.7	(2.8)	15.6	10.7
Pool management and Harvest Finance	15.0	34.2	10.0	7.9
International Commodity Management	59.2	33.9	47.5	19.7
Other Corporate	(2.4)	(3.0)	(7.2)	(6.5)
Total (excluding share of profit from associates)	130.2	200.5	155.5	51.3
<b>EBIT</b>				
Rural Services <sup>(3)</sup>	42.8	74.5	37.4	16.5
Grain Marketing	2.8	55.3	44.0	(0.7)
Logistics and other investments	(5.3)	(11.1)	6.8	6.0
Pool Management and Harvest Finance	15.0	34.2	10.0	7.9
International Commodity Management	59.1	33.6	47.3	19.6
Other Corporate	(24.7)	(21.9)	(16.6)	(11.4)
Total (excluding share of profit from associates)	89.7	164.7	128.9	37.9

**Note:**

- Based upon continuing operations (i.e. excluding the effects of AWB Brasil, Hi-Fert and LFS). Excludes share of profit from associates.
- Rounding exists in the above calculations.
- The FY07, FY08 and FY09 results include the EBIT and EBITDA contribution from the Insurance and Stocklease businesses. The businesses were formerly a part of the LFS segment (now sold) and from FY10 will form part of the Rural Services segment. The adjustments are as follows:

EBITDA	6.6	8.7	8.6
EBIT	6.5	8.7	8.5

**Source:** AWB Management Discussion and Analysis 2009, excluding the effects of LFS.

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### Statement of financial position

99 The financial position of AWB as at 30 September 2009 and 31 March 2010 is set out below:

<b>AWB – statement of financial position<sup>(1)</sup></b>		
	<b>Audited 30 Sep 09 \$m</b>	<b>Reviewed 31 Mar 10 \$m</b>
Cash and cash equivalents	296.8	217.7
Loans and receivables	2,045.3	1,188.7
Inventories	299.5	697.2
Derivative financial instruments	142.3	143.6
Income tax receivable	19.7	27.0
Other current assets	42.8	54.4
Assets of disposal group classified as held for sale	214.7	138.2 <sup>(2)</sup>
<b>Total current assets</b>	<b>3,061.1</b>	<b>2,466.9</b>
Property, plant and equipment	157.7	172.8
Loans and receivables	1,256.5	19.2
Intangible assets	422.0	421.0
Deferred income tax assets	103.0	97.1
Available for sale financial assets	5.1	5.4
Investments accounted for using the equity method	53.6	55.2
<b>Total non-current assets</b>	<b>1,997.9</b>	<b>770.7</b>
<b>Total assets</b>	<b>5,059.0</b>	<b>3,237.6</b>
Trade and other payables	428.7	817.8
Interest bearing loans and borrowings	3,405.1	956.5
Provisions	39.4	34.5
Derivative financial instruments	81.2	53.6
Liabilities associated with assets classified as held for sale	182.9	85.7 <sup>(3)</sup>
Other current liabilities	1.1	3.2
<b>Total current liabilities</b>	<b>4,138.4</b>	<b>1,951.3</b>
Provisions	2.6	3.2
Derivative financial instruments	0.9	4.1
Deferred tax liabilities	12.2	12.0
<b>Total non-current liabilities</b>	<b>15.7</b>	<b>19.3</b>
<b>Total liabilities</b>	<b>4,154.1</b>	<b>1,970.7</b>
<b>Net assets attributable to the Group</b>	<b>904.9</b>	<b>1,266.9</b>
Parent entity interest	890.0	1260.3
Non-controlling interest	14.9	6.6
<b>Total equity attributable to the Group</b>	<b>904.9</b>	<b>1,266.9</b>

**Note:**

- 1 Rounding exists in the calculations.
- 2 Includes \$34.1 million of deferred income tax assets arising from losses incurred on the sale of LFS. Also includes \$13.1 million of deferred income tax assets in respect of the write-down in the carrying value of Hi-Fert.
- 3 Includes \$0.5 million of trade and other payables attributable to LFS.

**Source:** AWB 2009 Annual Report and 2010 Interim Report.

#### Assets classified as held for sale

- 100 In 2009 AWB decided to discontinue AWB Brasil.
- 101 Landmark participates in a 50/50 joint venture with Elders in relation to the ownership of Hi-Fert. In July 2009 AWB announced that it was undertaking a review of the joint venture and that it was their intention to sell the asset at the completion of that review. The review process remains on-going as at the date of this report.
- 102 In March 2010 AWB completed the sale of the LFS loan and deposit books to ANZ. As a result of the transaction AWB expected to release approximately \$155 million in capital with the potential for additional \$13 million over time depending on the performance of specific loans over time<sup>30</sup> (\$149 million released as of 31 March 2010 with the remainder subject to the finalisation of the accounts).
- 103 As at 31 March 2010, the carrying values of assets categorised as available for sale were as follows.

AWB – assets classified as held for sale <sup>(1),(2)</sup>			
	Assets 31 Mar 10 \$m	Liabilities 31 Mar 10 \$m	Net assets 31 Mar 10 \$m
AWB Brasil	80.3	85.2	(4.9)
Hi-Fert <sup>(3)</sup>	23.9	0.0	23.9
Total	104.2	85.2	19.0

**Note:**

- 1 As at 31 March 2010 there was also \$34.1 million in deferred income tax assets and \$0.5 million in trade and other payables in relation to the discontinued LFS.
- 2 Rounding exists in the calculations.
- 3 AWB holds a 50% interest in Hi-Fert via ELF. The carrying value of AWB's share of Hi-Fert is \$10.7 million, with the remainder, \$13.1 million, comprising deferred income tax assets predominantly arising out of (AWB's share of) the \$43.1 million write-down of Hi-Fert in the year ended 30 September 2009.

**Source:** AWB 2010 Interim Report.

#### Intangible assets

- 104 Intangible assets primarily represent the goodwill attributable to the Landmark acquisition. The goodwill is not amortised, but is tested annually for impairment. The review of the LFS lending business in 2009 resulted in a non-cash goodwill impairment write down of \$119.7 million<sup>31</sup>.
- 105 Other intangible assets relate to system development, licenses and non-contractual customer relationships and customer lists.

<sup>30</sup> Source: AWB ASX announcement dated 8 December 2009.

<sup>31</sup> Source: AWB 2009 full year results – consolidated financial report.



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106 The carrying value of goodwill mainly relates to the Landmark acquisition.

<b>AWB – intangible assets<sup>(1)</sup></b>		
	<b>30 Sep 09</b>	<b>31 Mar 10</b>
	<b>\$m</b>	<b>\$m</b>
Landmark acquisition goodwill <sup>(2)</sup>	395.9	395.9
Other intangible assets	26.1	25.1
<b>Total</b>	<b>422.0</b>	<b>421.0</b>

**Note:**

1 Rounding exists in the calculations.

2 Landmark acquisition goodwill as at 31 March 2009 was \$515.6 million.

**Source:** AWB 2009 Annual Report and 2010 Interim Report.

**Investments accounted for using the equity method**

107 Investments accounted for using the equity method as at 31 March 2010 are set out below.

<b>AWB – investments accounted for using the equity method<sup>(1)</sup></b>			
		<b>Ownership interest</b>	<b>Carrying value</b>
<b>Company</b>	<b>Principal activity</b>	<b>30 Sep 09<sup>(2)</sup></b>	<b>30 Sep 09</b>
		<b>%</b>	<b>\$m</b>
<b>Rural Services</b>			
Arcadian Wool Brokers Ltd	Wool handling	40.0	1.1
AWH Pty Ltd	Wool handling	50.0	7.1
RD1	Rural services	50.0	20.9
Farmerquip Pty Ltd	Rural financing	50.0	0.1
Genstock Pty Ltd	Rural livestock	50.0	1.2
Regional Infrastructure Pty Ltd	Rural livestock	50.0	1.6
HRZ Wheats Pty Ltd	Wheat breeding	30.0	0.9
<b>Logistics and Other Investments</b>			
Five Star Flour Mills Company SAE	Flour mill	30.0	16.4
Five Star Feed Mills and Animal Production Company SAE	Feed mill	32.7 <sup>(3)</sup>	4.3
<b>Total carrying value</b>			<b>53.6<sup>(4)</sup></b>

**Note:**

1 Rounding exists in the calculations.

2 Respective ownership interests remain unchanged as at 31 March 2010.

3 AWB holds 23.7% directly, and holds a further 9.0% indirectly through Five Star Flour Mills Company SAE.

4 As at 31 March 2010 the total carrying value was \$55.2 million.

**Source:** AWB 2009 Annual Report and 2010 Interim Report.

**Borrowings**

108 AWB's total borrowings comprises a mixture of 'pass-through' debt (for financing products in relation to Harvest Finance) and debt relating to AWB's Corporate activities including working capital and other financing requirements. The level of total debt fluctuates significantly during the year and the total debt at any one point is not necessarily reflective of AWB's average debt requirements.

- 109 In respect of 'pass-through' debt, Harvest Finance provides loan finance to and makes payments to growers who deliver wheat to the AWB Pools. AWB's 'pass-through' debt levels therefore vary with pool volumes, wheat prices and growers financing preferences.
- 110 AWB's debt facilities comprise bank overdraft, bank loan facilities, transactional financing, receivables securitisation and inventory financing. Total debt has fallen in recent years following the 2009 capital raising, the sale of the LFS loan and deposit book in March 2010 (which had a transformational impact on AWB's balance sheet and reduced net debt by over \$2 billion) and improved working capital management.
- 111 A comparison of debt levels at 30 September 2009 and 31 March 2010 shows the significant fluctuation in AWB's total debt due to seasonal variation.

<b>AWB – total external net debt<sup>(1),(2)</sup></b>		
	<b>30 Sep 09</b>	<b>31 Mar 10</b>
	<b>\$m</b>	<b>\$m</b>
Corporate debt	939.6 <sup>(3)</sup>	725.8
Harvest Finance debt	318.8	222.6
Accrued interest	4.3	7.5 <sup>(4)</sup>
Total borrowings	1,262.6	955.9
Less cash on hand (Corporate)	(72.2) <sup>(5)</sup>	(178.5) <sup>(6)</sup>
Less cash on hand (Harvest Finance)	(183.3)	(39.3)
Net debt of on-going operations	1,007.2	738.1
LFS debt	2,142.5	-
Less cash on hand (LFS)	(41.3)	-
Total net debt	3,108.4	738.1

**Note:**

- 1 Rounding exists in the calculations.
- 2 Includes share of net debt attributable to outside equity interests.
- 3 Excludes \$28.0 million in borrowings in respect of the discontinued business, AWB Brasil. This amount forms part of the carrying value of liabilities associated with assets held for sale as per the balance sheet.
- 4 Excludes \$0.6 million in accrued interest in respect of the discontinued business, AWB Brasil. This amount forms part of the carrying value of liabilities associated with assets held for sale as per the balance sheet.
- 5 Excludes \$15.1 million in cash in respect of the discontinued business, AWB Brasil. This amount forms part of the carrying value of assets held for sale as per the balance sheet.
- 6 Excludes \$3.8 million in cash in respect of the discontinued business, AWB Brasil. This amount forms part of the carrying value of assets held for sale as per the balance sheet.

**Source:** AWB Annual and Interim Reports and Presentations and AWB management.

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112 A break-down of AWB's net Corporate debt is set out below.

<b>AWB – net Corporate debt<sup>(1),(2)</sup></b>		
	<b>30 Sep 09<sup>(3)</sup></b>	<b>31 Mar 10<sup>(4)</sup></b>
	<b>\$m</b>	<b>\$m</b>
Inventory finance (ACM)	82.2	200.0
Rural trade receivables trust	150.0	250.0
Syndicated facility	31.2	-
Unsecured notes (LFS customer deposits)	309.0	-
Interest bearing liabilities/working capital finance (ICM)(5)	355.7	275.8
Stocklease facility	11.5	-
Sub-total	939.6	725.8
Accrued interest	4.3	7.5
Less cash on hand	(72.2)	(178.5)
Net Corporate debt (including accrued interest)	871.7	554.8

**Note:**

- 1 Rounding exists in the above calculations.
- 2 Includes share of net debt attributable to outside equity interests.
- 3 Excludes \$28.0 million in borrowings and \$15.1 million in cash in respect of the discontinued business of AWB Brasil. These amounts form part of the carrying value of liabilities associated with assets held for sale and assets held for sale, respectively, as per the balance sheet.
- 4 Excludes \$0.6 million in accrued interest and \$3.8 million in cash in respect of the discontinued business of AWB Brasil. These amounts form part of the carrying value of liabilities associated with assets held for sale and assets held for sale, respectively, as per the balance sheet.
- 5 US denominated debt (stated in Australian dollars).

**Source:** AWB Annual and Interim Reports and Presentations and AWB management.

## Contingent liabilities and legal actions

### *Oil-For-Food Programme*

- 113 Following the Iraqi invasion of Kuwait in 1990, the United Nations (UN) instituted a regime of economic sanctions on Iraq. With the passing of years there was increasing concern that these UN sanctions were taking its toll on the humanitarian needs of the Iraqi people. As a result, on 14 April 1995 the UN established the Oil-For-Food Programme (OFFP), whereby the Iraqi government was allowed to raise money through the sale of the country's key export, oil. The revenue from the sale of the oil was then placed into an escrow account, with the Iraqi government only allowed to use these funds, with permission from the UN, to purchase food, medical supplies and other humanitarian supplies.
- 114 The OFFP ended in 2003, following the invasion of Iraq by the US and accompanying forces and the lifting (with limited exceptions) by the UN of economic sanctions against Iraq.
- 115 According to the Independent Inquiry Committee (IIC) into the UN's OFFP<sup>32</sup>, the Iraqi regime of Saddam Hussein had received 'illicit income' by way of payments made to it under the OFFP. It was alleged that the largest source of this illicit income came by way of 'kick-backs' paid by companies, such as AWB, that Iraq had selected to receive under contracts for humanitarian goods under the OFFP.

<sup>32</sup> Source: Volcker, P. A., Goldstone, R. J., & Pieth, M., *Manipulation of the Oil-For-Food Programme by the Iraqi Regime*, Independent Inquiry Committee into the United Nations Oil-For-Food Programme, 27 October 2005.

- 116 Four separate class actions and one quasi-class action were commenced against AWB in relation to its sales under the auspices of the OFFP.

*Mastafa and Ismail claim*

- 117 In September 2007, a class action complaint was filed against AWB, AWB (USA) Ltd and BNP Paribas in the US District Court for the Southern District of New York on behalf of Saadya Mastafa and Kafia Ismail, allegedly representing a class comprising victims of crimes perpetrated by the Saddam Hussein regime in Iraq from 1996 to 2003. The complaint against AWB was dismissed in September 2008 on the basis that the proper forum for the hearing of the complaint was Australia. The complaint against AWB (USA) Ltd was subsequently dismissed on the grounds that it failed to properly plead a claim against it. The Court, however, granted the plaintiff leave to re-plead the case against AWB (USA) Ltd. No such repleading has been filed to date.

*Karim (Iraqi residents' class action)*

- 118 On 22 December 2006, a class action complaint was filed against AWB, AWB (USA) Ltd and BNP Paribas in the US District Court for the Southern District of New York on behalf of a class comprising residents of three northern governorates of Iraq. The complaint alleged that AWB's payments to the Iraqi regime unlawfully depleted funds in the UN OFFP escrow, thereby depriving members of the Plaintiff class of the humanitarian benefits which that shortfall might otherwise have purchased. The case was dismissed in September 2008 and the Plaintiffs' subsequent appeal was also dismissed in October 2009.

*Iraq Government civil lawsuit*

- 119 On 1 July 2008 the Iraqi Government filed a civil lawsuit in the US District Court for the Southern District of New York against AWB and 92 other companies who participated in the UN OFFP, alleging that the defendants participated in an illegal conspiracy with the former Saddam Hussein regime to divert funds from the UN OFFP escrow account. The lawsuit seeks total damages of some US\$10.4 billion, as well as treble damages under the US Racketeer Influenced and Corrupt Organisations Act (RICO). AWB and a number of other defendants filed a 'Motion to Dismiss' the complaint in January 2010. A decision on this motion is not expected until December 2010 at the earliest.

*Watson (shareholder) class action*

- 120 On 9 October 2007 John and Kaye Watson filed a class action lawsuit in the Federal Court of Australia against AWB, alleging that AWB contravened continuous disclosure requirements by not informing the ASX of AWB's knowledge of the facts surrounding its activities in relation to the OFFP. On 15 February 2010 AWB agreed to settle this class action, without any admission of liability, by making a payment of \$39.5 million to the Plaintiff class.

*US wheat grower (Boyd & Switzer, Erb and Brothers)*

- 121 In April 2007, a class action complaint was filed against AWB in the US District Court for the Southern District of New York on behalf of US wheat growers claiming that AWB acted in breach of US anti-trust laws in its activities in relation to the UN OFFP. AWB's 'Motion to Dismiss' the class action complaint was granted in March 2008, and no subsequent appeal has been filed.



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***Current contingent liabilities***

- 122 The decision on the 'Motion to Dismiss' the Iraqi Government civil lawsuit is not expected until December 2010 at the earliest.
- 123 On 2 June 2010, ASIC notified AWB that it had ended its investigation into the affairs of AWB Limited and AWB (International) Limited in connection with the OFFP<sup>33</sup>, and that:
- (a) it is not investigating and does not intend to conduct any future investigation of any possible contravention by AWB of any law in connection with the OFFP; and
  - (b) it did not intend to institute any proceeding (civil or criminal) against AWB for contravention of any law in relation to the OFFP.
- 124 A summary of the off-balance sheet contingent liabilities and expenditure commitments of AWB are set out below. As at the date of this report AWB has no other material contingent liabilities.

AWB – contingent liabilities and expenditure commitments <sup>(1)</sup>		
	30 Sep 09	31 Mar 10
	\$m	\$m
Litigation and other potential claims	11.9 <sup>(2)</sup>	11.2 <sup>(2)</sup>
Capital expenditure commitments	12.8	20.6
Total	24.7	31.8

**Note:**

- 1 Rounding exists in the calculations.
- 2 These figures represent an estimate of the possible damages/costs other than those not reliably measurable. In addition, AWB had a provision for litigation claims of \$586,000 and \$584,000 as at 30 September 2009 and 31 March 2010, respectively.

**Source:** AWB Annual and Interim Reports and Presentations.

**Share capital**

- 125 As at 29 July 2010, AWB had 817,304,356 fully paid ordinary shares on issue. In addition, the company had 6,977,311 performance rights outstanding<sup>34</sup>, each convertible to one ordinary share in AWB upon the meeting of stipulated performance hurdles.
- 126 The performance rights are issued by AWB to employees and vest upon the satisfaction of certain performance targets. We understand that the AWB Board has the discretion to vest performance rights in certain circumstances, including a change in control. Allowing for the exercise of the performance rights there are 824,301,667 fully diluted AWB shares on issue.

<sup>33</sup> Source: AWB management.

<sup>34</sup> Source: AWB ASX announcement, *Agrium Inc proposal*, 20 August 2010.

## Top 10 shareholders

127 As at 25 August 2010 the top 10 shareholders in AWB represented 28.4% of the issued capital (excluding performance rights), as shown in the table below:

AWB – top 10 shareholders (25 August 2010) <sup>(1)</sup>		
	Shares held No.	Issued capital %
Dimensional Fund Advisors	40,430,737	4.9
Commonwealth Bank of Australia	39,873,774	4.9
JPMorgan Chase & Co	24,737,942	3.0
Aviva plc	23,005,246	2.8
AXA Group	18,284,785	2.2
Alpine Associate Advisors	17,525,000	2.1
Private Stakeholders (Australia)	17,465,591	2.1
State Street Corporation	17,413,873	2.1
Goldman Sachs & Partners	16,887,734	2.1
Paradise Investment Management	16,823,756	2.1
		<u>28.4</u>

**Note:**

1 Rounding exists in the calculations.

**Source:** AWB management.

## Share price performance

128 The price of AWB shares from 1 July 2007 to 13 August 2010<sup>35</sup> is summarised in the table below:

AWB – share price performance table <sup>(1)</sup>				
	High \$	Low \$	Close \$	Monthly Volume 000 <sup>(2)</sup>
<b>Quarter ended</b>				
September 2007	3.54	1.96	1.99	35,226
December 2007	2.53	1.80	2.41	40,201
March 2008	2.55	1.66	2.26	32,060
June 2008	3.22	2.00	2.00	41,538
September 2008	2.72	1.86	2.31	31,555
December 2008	2.99	1.79	2.15	26,296
March 2009	2.20	0.59	1.04	43,239
June 2009	1.30	0.79	1.00	48,313
<b>Month ended</b>				
July 2009	1.18	0.96	1.12	40,423
August 2009	1.26	1.08	1.10	32,931
September 2009	1.34	0.99	1.28	83,701
October 2009	1.30	1.18	1.23	233,219
November 2009	1.31	1.15	1.19	226,210
December 2009	1.26	1.07	1.13	113,849
January 2010	1.22	1.06	1.06	87,349
February 2010	1.12	0.98	1.02	72,883
March 2010	1.13	0.87	0.96	168,807

<sup>35</sup> Being the final trading day of AWB shares prior to the announcement of the proposed Agrium Scheme.

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 & ASSOCIATES LIMITED

AWB – share price performance table <sup>(1)</sup>				
	High \$	Low \$	Close \$	Monthly Volume 000 <sup>(2)</sup>
April 2010	1.11	0.95	1.03	92,652
May 2010	1.04	0.93	0.99	59,208
June 2010	1.05	0.88	0.92	68,149
July 2010	1.04	0.89	0.99	63,728
August 2010 (up to and including 13 August 2010)	1.12	0.98	1.10	71,594

**Note:**

- 1 Prices and volume have been adjusted for the effects of changes in outstanding share capital, such as equity raisings and the exercise of options.
- 2 Monthly volumes for the quarter ended represent average monthly volumes.

**Source:** Bloomberg.

- 129 The following graph illustrates the movement in the AWB share price compared to the S&P/ASX 200 Food and Staples Retailing Index from 1 July 2006 to 13 August 2010<sup>36</sup>:

**Note:**

- 1 Prices have been adjusted for the effects of changes in outstanding share capital, such as equity raisings and the exercise of options.

**Source:** Bloomberg.

- 130 As shown above, prior to the announcement of the GrainCorp and later Agrium offer, the share price of AWB has under-performed the S&P/ASX 200 Food and Staples Retailing Index for the majority of the period, particularly since the beginning of 2009.

<sup>36</sup> Being the final trading day of AWB shares prior to the announcement of the proposed Agrium Scheme.

## IV Grain and rural services industries

- 131 AWB has operations in both the grain industry (trading, storage and handling) and the rural services industry.

### Grain industry

#### Overview

- 132 Grains, also known as cereals or cereal grains, are the seeds of grasses, and are a source of energy, carbohydrate, protein and fibre. ABARE considers the grain industry comprises a range of different crops, including:
- (a) wheat
  - (b) coarse grains (barley, oats, maize, sorghum and triticale)
  - (c) oilseeds (canola, cottonseed, sunflower, soybean, safflower and linseed)
  - (d) pulses / legumes (chickpeas, faba beans, field peas, lupins, lentils and mung beans); and
  - (e) rice.
- 133 The primary uses of grain include human consumption, feedstock for animals and in the creation of fuels such as ethanol and biodiesel.

#### Global grain industry

- 134 Three main grain types are traded on international markets: wheat, coarse grains and oilseeds. Global grain production is currently some 2.1 billion tonnes per annum and has increased over time predominately in response to the growing global population. Increasing levels of production have (to date) been facilitated by an expansion in the size and absolute number of grain crops (i.e. farming suitable land resources that were previously unused or used for other purposes) and more efficient farming practices (i.e. higher levels of agricultural productivity which in turn have led to higher farming yields).
- 135 According to the Food and Agriculture Organisation of the United Nations (FAO), by 2050 the world will have to feed an additional 2.3 billion people (with nearly all this growth forecast to take place in developing nations). Based upon current population estimates (6.9 billion<sup>37</sup>) this represents a prima facie increase in the demand for grain of some 34%. However, grain demand per capita is also expected to grow over time as the expected growth in the affluence of the developing nations leads to an increase in meat consumption (which requires a proportionately greater amount of grain to produce)<sup>38</sup>. In that context, the FAO has forecast current levels of grain production to expand by some 43% in order to meet demand. As demand rises, trade in grains is expected to expand, with net grain imports into developing nations increasing three-fold and by 2050 accounting for approximately 14% of their cereal consumption (up from some 9% in 2006-08)<sup>39</sup>. Cereals self-sufficiency is expected to remain

<sup>37</sup> Source: US Census Bureau website, accessed 26 August 2010.

<sup>38</sup> It takes seven kilograms of grain to raise one kilogram of beef, four kilograms of grain for one kilogram of pork and two and a half kilograms for one kilogram of chicken. Source: *Environmental Aspects of Animal Liberation: Real Conservationists Don't Eat Meat* Geoff Russell, March 1997.

<sup>39</sup> Source: FAO (2009) *Global agriculture towards 2050*.

low and fall further (from 59% in 2006-08 to 54% in 2050) in the regions most dependent on food imports, the Near East and North Africa<sup>40</sup>.

- 136 The majority (90%) of future growth in the global crop production is expected to come from higher yields and increased cropping intensity, with land expansion making up the remainder. The FAO forecast assumes that:
- (a) there will be continued investment in the on-going improvement of farming efficiency; and
  - (b) sufficient additional suitable land resources, with potential for crop production, will be available. That is, land resources that do not suffer from constraints such as contamination, lack of water, lack of infrastructure, is forested or protected, is already urbanised etc. This view is supported by a recent Global Agro-Ecological Zone study, albeit the outcomes of the study are subject to various caveats.
- 137 Many factors influence the global production of grains including:
- (a) the area planted and availability of land for additional crops
  - (b) government regulation (discussed further below)
  - (c) government subsidies / support (discussed further below)
  - (d) weather, including regional rainfall and long-term global weather patterns
  - (e) crop disease
  - (f) pests, such as locusts
  - (g) technological developments, including the introduction of genetically modified (GM) grains (first planted commercially in 1996) to increase yield and/or increase resistance to disease and pests
  - (h) development of land and water resource management strategies to improve yield per acre
  - (i) fluctuations in commodity prices.

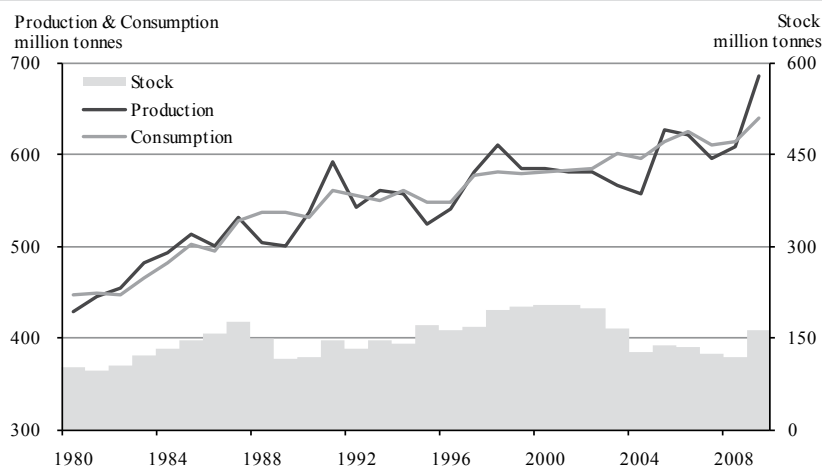
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<sup>40</sup> Ibid



- 138 While global wheat production has risen over the long-term, annual production by region is inherently more volatile than annual consumption.

**World wheat production, consumption and closing stocks**



**Note:** Production is the sum of individual closing stocks at the end of respective national crop years.

**Source:** ABARE *Commodity Statistics* 2009.

- 139 Similarly, the major coarse grain producers have also experienced volatility in production.
- 140 Levels of government regulation on the grain industry are highly diverse and vary from country to country. For example, the US is deregulated for both domestic and international wheat sales, while the European Union grain industry has high levels of regulation both domestically and for export with agricultural policy dictated by the Common Agricultural Policy under the direction of the European Commission<sup>41</sup>.
- 141 In 2009, support provided to producers by governments in OECD countries, as measured by the Producer Support Estimate<sup>42</sup> (PSE), was estimated at US\$253 billion, which represents 22% of aggregate gross farm receipts, slightly up from 21% in 2008. This is the first increase in support after a steady decline since 2004. Producer support takes various forms including market price support, which represents the single largest component of overall producer support, and payments (subsidies) based on output, area planted, animal numbers, inputs and farm income. The level of support in Australia is relatively low, being 4% of producer revenue for 2007-09, compared with 9% in the US, 17% in Canada, 23% in the EU, 47% in Japan and 61% in Norway.<sup>43</sup>

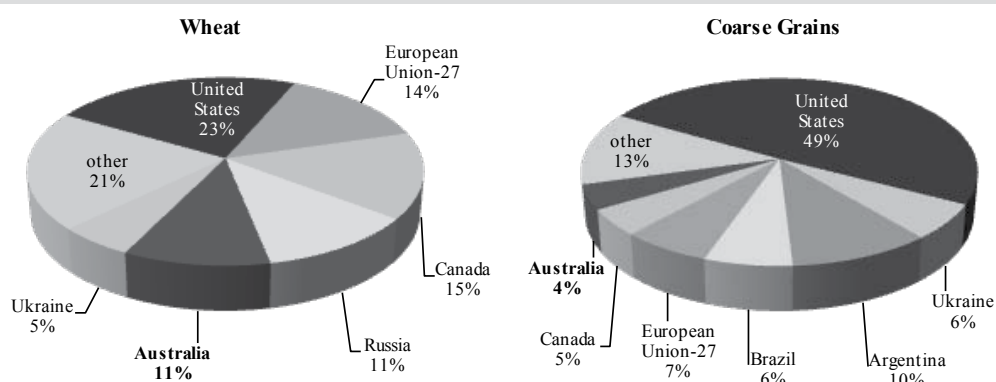
<sup>41</sup> Source: AWB *Investor Fact Book* 2004.

<sup>42</sup> The monetary value of government support policies expressed as a percentage of gross farm receipts. Includes price support and budgetary payments.

<sup>43</sup> Source: OECD (2010) *Agricultural policies in OECD countries*.

- 142 The largest exporter of wheat and coarse grains is the United States, accounting for around 23% and 49% of global exports, respectively. However, US exports of wheat have fallen from 34.4 million tonnes in 2007 to 22.5 million tonnes in 2009. This is partly due to the US Government's mandate on ethanol being added to petrol, currently at a volume of 10%. This policy has seen some farmers switch from a range of grains to corn production (from which ethanol is made), reducing grain supply.
- 143 Australia is a significant exporter of both wheat and coarse grains.

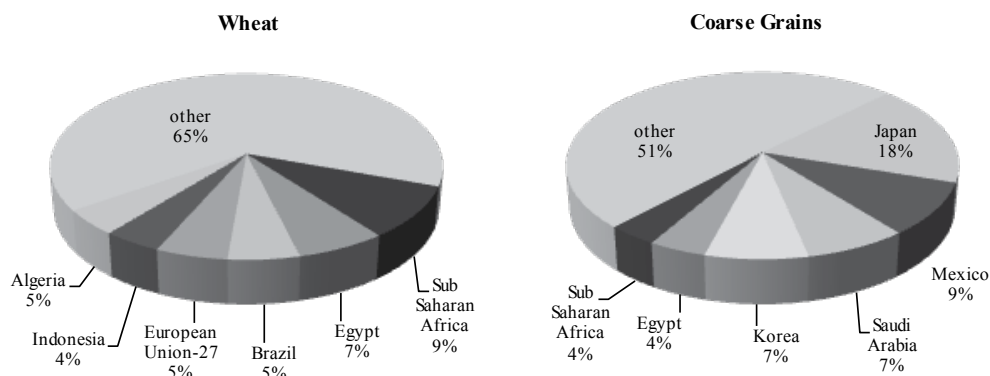
**Major grain exporters**  
**Based on 2005-09 total volumes**



Source: OECD-FAO Agricultural Outlook 2010-2019 database.

- 144 The largest importer of wheat is Sub Saharan Africa, accounting for around 9% of global imports. The largest importer of coarse grains is Japan, accounting for around 18% of global imports. Australia does not import significant volumes of grain.

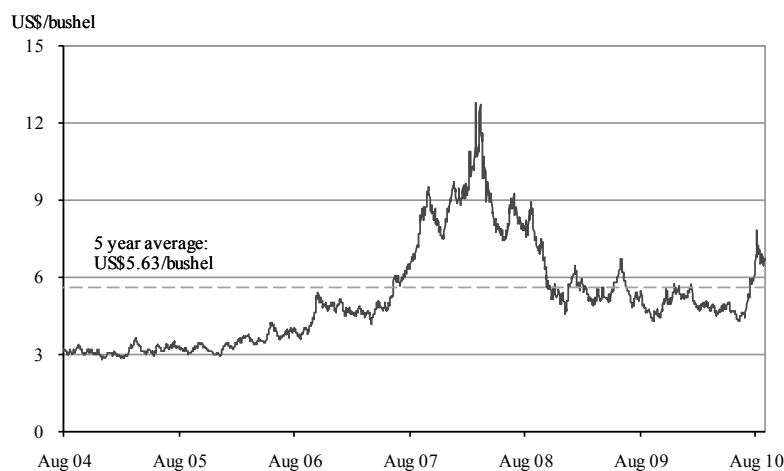
**Major grain importers**  
**Based on 2005-09 total volumes**



Source: OECD-FAO Agricultural Outlook 2010-2019 database.

- 145 Global wheat prices reached a record high in February 2008 due to a combination of low production and low stocks in 2007. Global stocks in 2007-08 were at a 19-year low of 118 million tonnes, having fallen three years in a row from 139 million tonnes in 2004-05. An acute shortage of quality hard wheat resulted in panic buying in January and February 2008. Production was down in 2007 in Australia due to drought and in Canada due to excessively wet seeding conditions.

**Wheat price indicator (5 years to 27 Aug 2010)**  
**Chicago Board of Trade generic future wheat price**



**Note:** Incorporates Northern Spring Wheat, Soft Red, Hard Red Winter and Dark Northern Spring wheat prices.  
**Source:** Bloomberg.

- 146 Recently, a severe drought in Russia, the worst in 50 years, has had a significant impact on global grain production and prices. The drought has reduced arable land by 10 million hectares and is expected to reduce Russian wheat production for 2010-11 by approximately 8.0 million tonnes compared to estimates made in July, and by 16.7 million tonnes compared to 2009-10<sup>44,45</sup>. Russian Prime Minister Vladimir Putin placed a ban on Russian wheat exports from 15 August 2010 to keep Russia's domestic grain prices down and to maintain food supplies.<sup>46</sup>
- 147 Other adverse weather conditions have also placed pressure on wheat prices. Kazakhstan has experienced similar adverse weather conditions to Russia and production for 2010-11 is expected to be 2.5 million tonnes lower than July estimates. In addition, heavy summer rains in the Ukraine are expected to reduce the Ukraine's production by 3.0 million tonnes.<sup>47</sup> The European Union has lowered production forecasts by 4.3 million tonnes resulting from heat and dryness in north-western Europe. The losses are expected to be partially offset by increased crop volumes in India, the US and Australia.

<sup>44</sup> Source: AFP 12 August 2010 *Russian drought devours world wheat supplies: US*.

<sup>45</sup> Source: US Department of Agriculture *World Agriculture Supply and Demand Estimates* 12 August 2010.

<sup>46</sup> Source: AFP 12 August 2010 *Russian drought devours world wheat supplies: US*.

<sup>47</sup> Source: US Department of Agriculture *World Agriculture Supply and Demand Estimates* 12 August 2010.

148 In response, wheat prices<sup>48</sup> reached a two year high of US\$7.858/bushel (A\$315.24/tonne<sup>49</sup>) on 5 August 2010.

### Australian Grain Industry

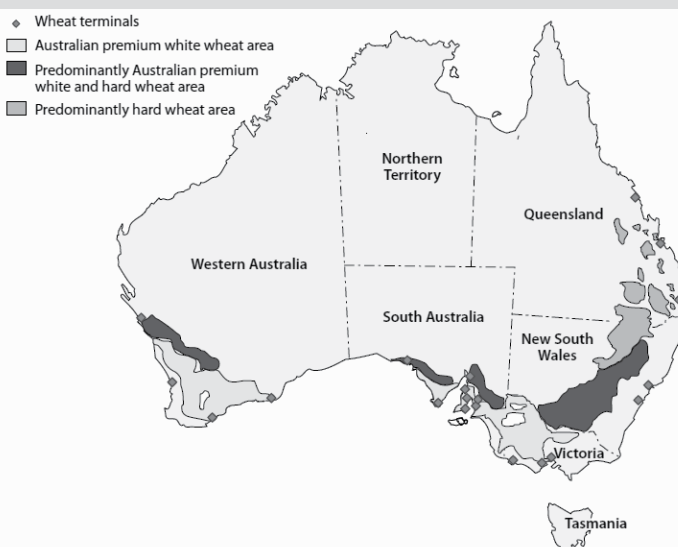
149 Wheat is the dominant crop grown in Australia, accounting for around 57% of total grain production in 2009-10. The next largest crop is coarse grains, accounting for 35%. The main grades of wheat grown in Australia are as shown below. Within each of these grades further segregations exist based on geographical and quality differentiation. In any given season there may be over 20 different segregations of wheat across Australia.

#### Grades of wheat grown in Australia

- |                              |                |
|------------------------------|----------------|
| • Australian Prime Hard      | • Noodle wheat |
| • Australian Hard            | • Soft wheat   |
| • Australian Premium White   | • Durum        |
| • Australian Standard White  | • Feed wheat   |
| • Australian General Purpose |                |

150 The following map shows a breakdown of Australia's main wheat growing areas:

#### Australian wheat growing regions



Source: ABARE *Australian Crop Report* June 2010.

<sup>48</sup> Generic futures traded on the Chicago Board of Trade incorporating Northern Spring Wheat, Soft Red, Hard Red Winter and Dark Northern Spring wheat prices.

<sup>49</sup> Calculated based on Australian exchange rate (as per Reserve Bank of Australia (RBA)) on 5 August 2010: A\$1.00 = US\$0.9159. Converted to tonnes using 60 pounds to a bushel and 2,204.6 pounds to a tonne.

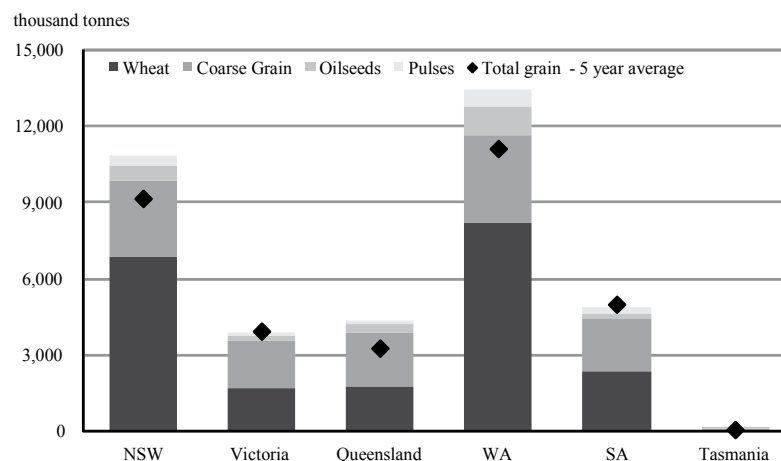
151 Domestic grain production is primarily dependent on:

- (a) global grain prices and foreign exchange rates, which influence the area sown and the mix of grains
- (b) government subsidies (predominantly for research and development, mainly directed towards the CSIRO<sup>50</sup>)
- (c) government policies and regulations, such as those pertaining to GM crops and irrigation
- (d) weather, for example local rainfall and global weather patterns (e.g. El Niño, La Niña)
- (e) crop damage due to disease and pests
- (f) other agricultural activities which compete for farming land and water resources.

152 Domestic end use demand from food production industries is not a key influence on Australian crop planting decisions, but rather, domestic production is a function of expected export market conditions.

153 In each mainland state the dominant crop is wheat, followed by barley (which is one of the coarse grains). Western Australia accounts for around 39% of Australian wheat production and 28% of coarse grain production, followed by NSW with 33% and 24%, respectively. Grain production in Queensland and parts of NSW consists of both summer and winter crops and therefore grain is harvested over two periods of each year.

**Production of grains by state  
2008-09**



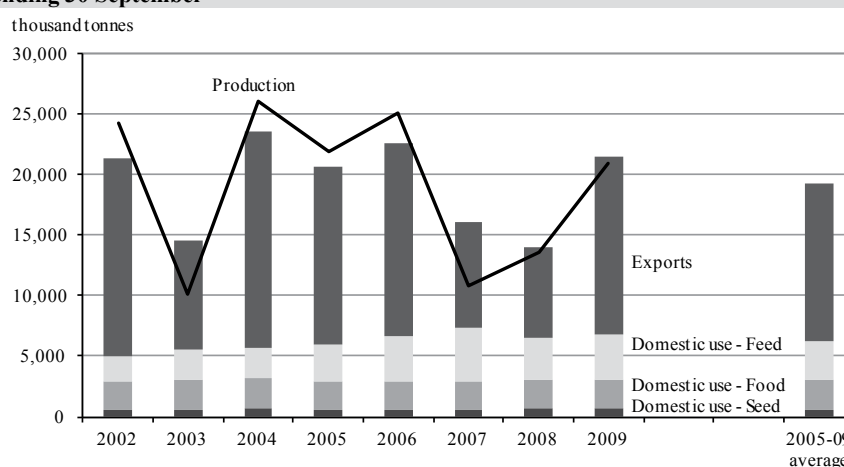
Source: ABARE, Australian Commodity Statistics 2009.

<sup>50</sup> Commonwealth Scientific and Industrial Research Organisation.



- 154 On average approximately three quarters of Australian wheat production is exported, however wheat production in Australia varies greatly from year to year. Production volumes fell dramatically in 2007 and 2008 due to on-going drought conditions before returning to normal in 2009. Domestic consumption tends to be fairly stable whereas export volumes reflect annual production volumes. In years where production is very low, domestic use plus the export volume will exceed the annual production volume, and stocks are reduced. Domestic use increases in drought years as more wheat is used in livestock feed, which further reduces the amount of wheat available for export. In bumper years stocks are increased.

**Australian wheat – annual production, use and export**  
**Years ending 30 September**



Source: ABARE Australian Commodity Statistics 2009.

- 155 ABARE estimated that around 11 million tonnes of wheat was held in stock in Australia at the start of July 2010. Around 756,000 tonnes (6.8%) was stored by growers and 532,000 tonnes (4.8%) was stored by users. The other 88.4% was stored by bulk grain handlers<sup>51</sup>.

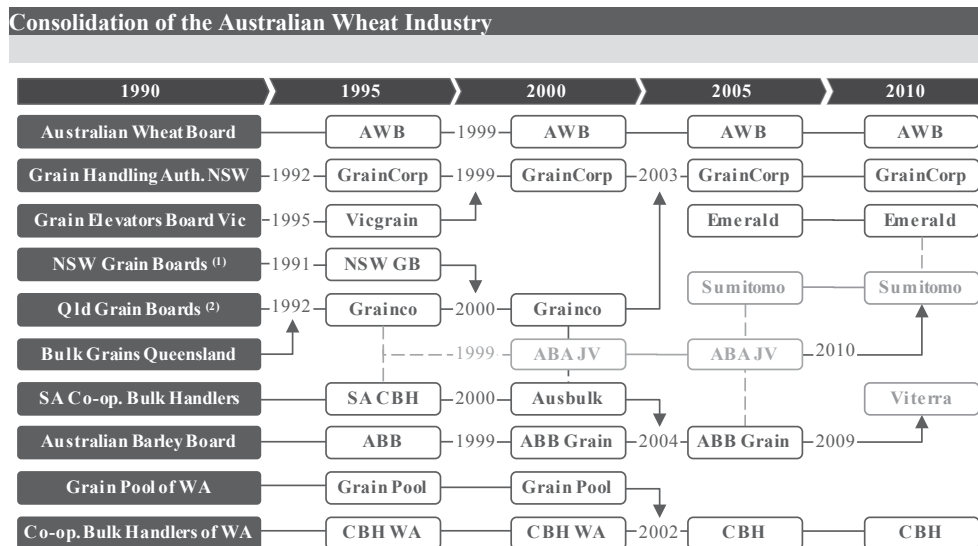
#### **Government regulation**

- 156 The level of regulation has been decreasing in the domestic grain market since July 1989. The introduction of the Wheat Export Marketing Act 2008 in July 2008 removed AWB's single desk export status and introduced competition into bulk wheat export marketing. The new regulator, Wheat Exports Australia (WEA), is responsible for accrediting bulk wheat exporters subject to certain probity tests. In 2009-10 a total of 28 companies have been accredited, with the US company Gavilon currently seeking to become the 29th licensed exporter<sup>52</sup>.
- 157 Exports of non-bulk wheat (in bags or containers of less than 50 tonnes) do not require an export license.

<sup>51</sup> Source: ABARE Australian wheat supply and exports monthly August 2010.

<sup>52</sup> Source: Reuters Gavilon seeks Australia wheat export license 26 August 2010.

- 158 The deregulation of the Australian grain industry has resulted in significant industry consolidation as shown here:



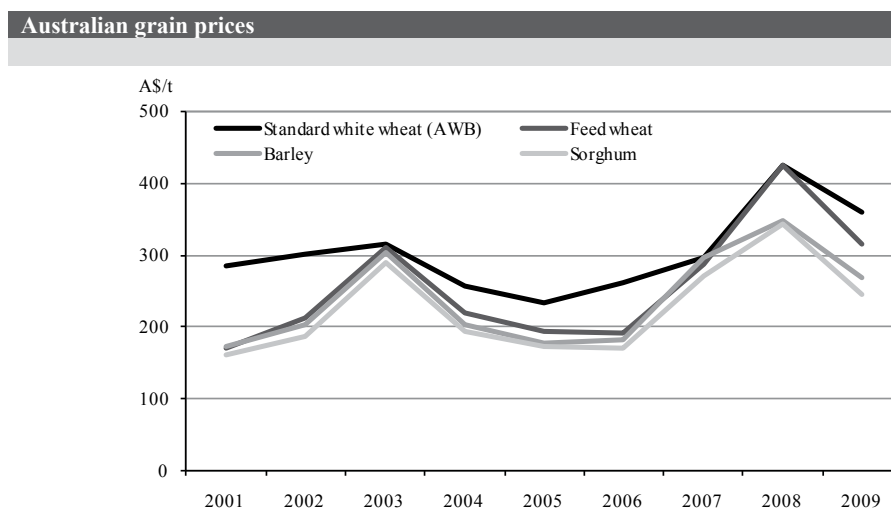
Note:

1 Includes NSW Barley Board, NSW Oats Marketing Board, NSW Sorghum Board and NSW Oilseeds Board.

2 Includes Central Queensland Sorghum Board, State Wheat Board (Queensland) and Queensland Barley Board.

### Australian grain prices

- 159 The following chart provides an overview of historical export prices for wheat (Australian Standard White and Feed grades), barley and sorghum average bulk prices.



Note: Standard white wheat export quote, f.o.b. eastern states of Australia. Barley price is average quote for bulk feed barley, delivered Sydney region. Feed wheat and sorghum prices are average bulk quote, delivered Sydney region.

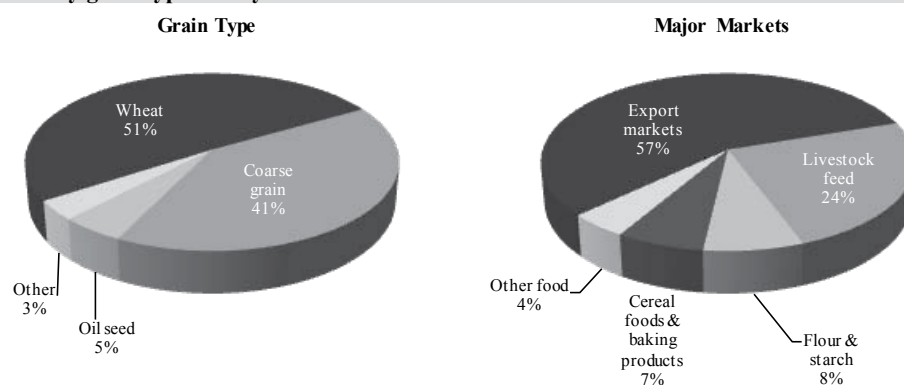
Source: ABARE Australian Commodity Statistics 2009.

### Grain wholesaling in Australia<sup>53</sup>

- 160 AWB buys and sells wheat, during and after harvest primarily through its cash based forward contracts and pools. Whilst AWB is predominantly involved in the marketing of wheat, the company is also involved in the acquisition and trading of other products including canola, barley, sorghum and pulses.
- 161 Grain wholesaling in Australia predominately consists of wholesaling wheat and coarse grain, which together represent 92% of industry revenue. Exports represent the largest market for Australian grain wholesaling, followed by livestock feed and then manufacturing (flour, starch, cereal foods and baking products etc). The following charts provide an overview of major market segmentation:

#### Grain wholesaling in Australia

##### Revenue by grain type and by end market as at March 2010



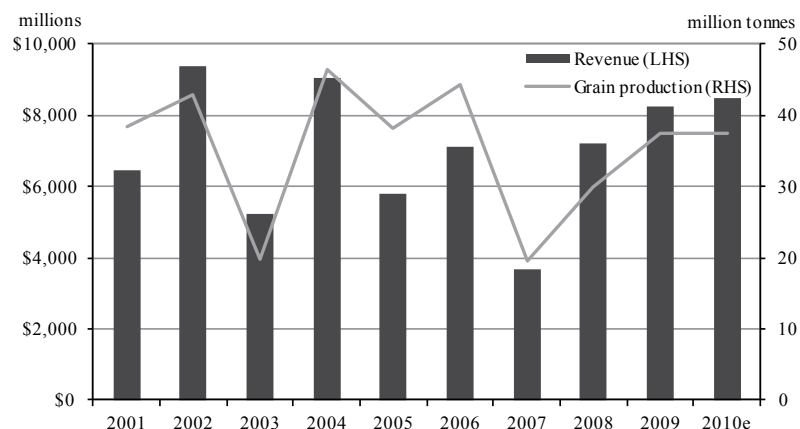
Source: IBISWorld, *Cereal Grain Wholesaling in Australia*, March 2010.

- 162 Demand for Australian grain wholesaling services is primarily dependent on the annual production volume.
- 163 Although the industry has been deregulated, other barriers continue to limit the ease with which new participants can enter the market including:
- (a) access to high levels of working capital
  - (b) ownership and operation of infrastructure
  - (c) access to and understanding of customers
  - (d) farm gate origination expertise
  - (e) WEA accreditation requirements for bulking grain exporting operations.

<sup>53</sup> Entities mainly engaged in wholesaling wheat or other cereal grains, including wholesaling units operated by marketing authorities. Source: IBISWorld *Cereal grain wholesaling in Australia* March 2010.

- 164 Revenue in the Australian grain wholesaling industry is volatile, and is a direct reflection of the underlying volatility in grain production.

**Australian grain wholesaling industry revenue and Australian grain production**



**Note:** Grain production includes total production of wheat, coarse grain, oilseeds and pulses. e, estimate.

**Source:** IBISWorld *Cereal Grain Wholesaling in Australia* March 2010; ABARE *Australian Commodity Statistics* 2009 and *Australian Commodities* June quarter 2010.

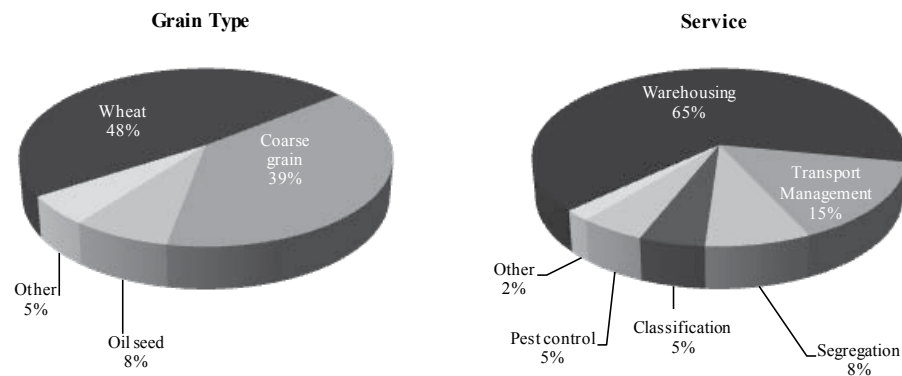
- 165 As shown above the industry was severely impacted by the droughts of 2002-03 and 2006-07. In addition, the industry is exposed to fluctuations in overseas commodity prices and exchange rates, changes in government legislation, the contracted price of purchased grain and economic conditions.

#### Grain handling and storage in Australia<sup>54</sup>

- 166 AWB operates 22 regional grain storage and handling facilities across Australia's east coast and into South Australia (and its financial performance is therefore largely impacted by eastern seaboard grain volumes). AWB also provides bulk ocean freight chartering and container management services to support its grain handling and storage operations.
- 167 Grain handling and storage is a multistep process. Following crop harvest, grain handlers receive and store grain according to its variety and protein content. Grain is then dispatched as required whether for domestic consumption or for export. Depending on the destination of the grain, this may involve multiple transfers of the grain, including from silos to land based transport (e.g. rail), to export terminals, and finally to ships.
- 168 The key driver of demand for grain storage is the domestic production volume, with the industry being very sensitive to the size of each harvest. Although operators can reduce expenses and wages to some extent during periods of lower demand, the reduction in costs does not meet falls in revenue.

<sup>54</sup> Companies engaged in the storage of cereal grains. Following crop harvest, grain handlers receive and sort grain according to their use and protein content. Grain is then dispatched as required whether for domestic consumption or for export. Source: IBISWorld *Grain Storage in Australia* June 2010.

- 169 The operation and maintenance of grain silos requires a minimum amount of labour. General tasks include the receipt of grain, maintenance of facilities, pest management and quality assessment. However, in bumper seasons more workers are required to process the larger quantities of grains coming through storage facilities. Increased casual labour and overtime work are generally used to handle the extra requirements in bumper seasons.
- 170 The majority of grain handled in Australia is wheat and coarse grain, together representing approximately 87% of industry revenue. Warehousing (i.e. storage) and transport management are the major service segments, with other services including segregation, classification and pest control. The following charts provide a break-down of the major sources of revenue.

**Grain storage and handling in Australia**
**Revenue by grain type and by service provided as at June 2010**


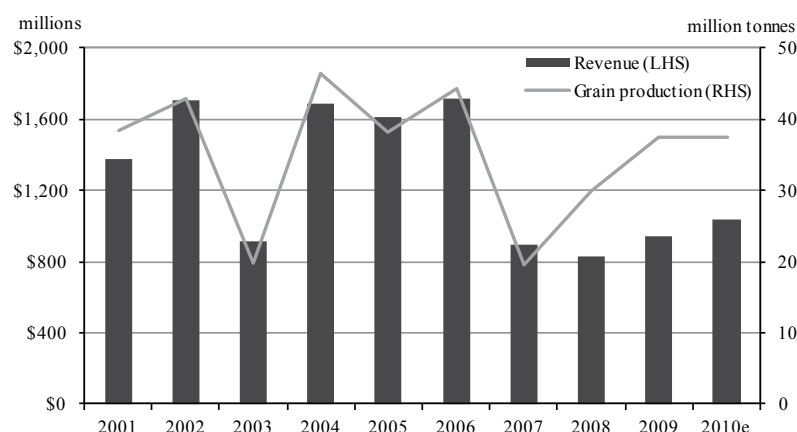
Source: IBISWorld, *Grain Storage in Australia*, June 2010.

- 171 A significant proportion of storage is located at ports, with 30% of storage located at ports in South Australia, 25% in Victoria and Western Australia and 10% in Queensland and New South Wales.
- 172 Demand for grain handling is largely influenced by production volume however several other factors are also important including:
- the range of crops produced, including demand for niche market crops, which require segregation
  - demand from end users for segregation on the basis of quality, protein content and other criteria
  - end users requiring segregation of GM crops
  - the level of closing stocks of wheat and coarse grains.



- 173 The grain storage and handling industry supplies services and competes regionally. Ownership is highly concentrated, with the top four participants handling around 80% of grain production in Australia in 2009-10.<sup>55</sup> Markets are largely geographic rather than national. In addition, pest control is important within the grain handling industry, with Australia's Export Control Act specifying a 'nil tolerance' for live insects at the point of export. As a result, the ability to provide monitoring programs and control measures (such as contact insecticides and fumigants) to prevent insect infestations from developing is an important pre-requisite.
- 174 External competition is also derived from on-farm grain storage by farmers and storage facilities provided by processors such as flour millers as part of their internal operations.
- 175 The main barriers to entry for new participants are:
- (a) the high level of vertical integration in the grain industry
  - (b) high capital costs to construct storage facilities and purchase grain handling equipment and the current excess capacity
  - (c) the ability to provide services which are equal or superior to existing services.
- 176 Grain handling and storage revenue is highly volatile and sensitive to seasonal conditions. For example, the drought conditions experienced in 2006-07 led to a fall in wheat production and a 61% decrease in closing stocks, which in turn reduced revenue by 48%.<sup>56</sup> The following chart provides an overview of recent historical performance verses total Australian grain production:

Australian grain handling revenue and Australian grain production



**Note:** Grain production includes total production of wheat, coarse grain, oilseeds and pulses. e, estimate.

**Source:** IBISWorld *Grain Storage in Australia* June 2010; ABARE *Australian Commodity Statistics* 2009 and *Australian Commodities* June quarter 2010.

<sup>55</sup> Source: IBISWorld *Grain Storage in Australia* June 2010.

<sup>56</sup> Ibid

### Grains industry outlook

- 177 As a result of drought in Russia and various other adverse climatic conditions in Kazakhstan, the Ukraine and the European Union, the United States Department of Agriculture (USDA) forecasts global production of wheat to decline by 15.3 million tonnes for 2010-11<sup>57</sup>. The USDA also forecasts barley production to decline 10.6 million tonnes.
- 178 The decline in wheat production across Russia and parts of Europe are expected to be partially offset by increases in India, the US and Australia.
- 179 With regard to Australian production, the past several months have produced favourable seasonal conditions for locusts in the eastern states of Australia, which has led to widespread swarms and resulted in high density egg laying in a number of cropping regions. Hatching is expected to begin in August in southern Queensland, NSW and SA, and in late September in Victoria<sup>58</sup>. The impact on winter crop yields and production will depend on a number of factors including the effectiveness of spraying programs on immature locusts and the destination of any migrating swarms. Extensive efforts by State governments and farmers are being applied to spraying programs to control the impact but at this time the level of damage on the winter crops cannot yet be assessed.
- 180 The El Niño of 2009-10 has concluded and the Southern Oscillation Index (SOI) now indicates that the Pacific is currently experiencing La Niña conditions<sup>59</sup>. Typically, La Niña conditions are associated with above normal rainfall during the second half of the year across large parts of Australia, most notably eastern and northern regions<sup>60</sup>. However, the Bureau of Meteorology's national outlook for total rainfall over spring is neutral for most of the country, other than in southern WA and north-eastern NSW, which are two of the major wheat growing regions<sup>61</sup>, where wetter than normal conditions are expected<sup>62</sup>.

<sup>57</sup> Source: US Department of Agriculture *World Agriculture Supply and Demand Estimates*, 12 August 2010.

<sup>58</sup> Source: DAFF *Locust situation in August 2010* 6 August 2010.

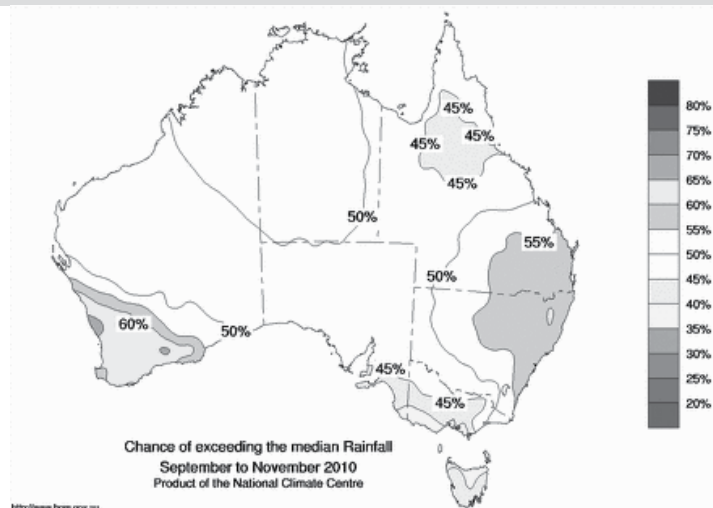
<sup>59</sup> Source: Australian Bureau of Meteorology, 18 August 2010.

<sup>60</sup> Ibid

<sup>61</sup> See paragraph 150.

<sup>62</sup> Source: Australian Bureau of Meteorology *National Seasonal Rainfall Outlook* 24 August 2010.

### National Seasonal Rainfall Outlook



Source: Bureau of Meteorology 24 August 2010

- 181 The following table provides a summary of ABARE production forecasts for wheat, coarse grain and oilseeds up to 2015, in comparison to the five year average to 2009.

Australian grain production – ABARE's medium term projections as at March 2010							
	5 year average to 2009	2010e	2011f	2012z	2013z	2014z	2015z
Year ended 30 June	mt	mt	mt	mt	mt	mt	mt
Wheat	18.5	21.7	21.9	22.6	23.4	24.2	25.0
Coarse Grain	11.7	11.4	11.5	11.8	12.1	12.5	12.8
Oilseeds	2.1	2.6	2.5	2.7	2.9	3.0	3.1
Total	32.3	35.6	35.9	37.1	38.4	39.7	40.9
<b>Year on year growth%</b>							
Wheat		3.4	1.3	3.0	3.4	3.4	3.4
Coarse Grain		(8.2)	0.5	2.9	2.7	3.2	2.6
Oilseeds		1.0	(5.0)	10.3	7.1	3.1	4.0
Total		(0.8)	0.6	3.5	3.5	3.3	3.2

**Note:**

e, estimate; f, forecast; z, projection. mt, million tonnes. Totals may not sum due to rounding.

Source: ABARE *Australian Commodities* March quarter 2010 and *Australian Commodity Statistics* 2009.

182 As indicated above, ABARE projects wheat production to increase 35% by 2015 on the five year average to 2009, and total production of wheat, coarse grain and oilseeds to increase by approximately 27%. In addition, since the outlook released in March 2010, ABARE has revised its forecast for wheat production in 2010-11 up to 22.1 million tonnes<sup>63</sup>. By contrast, barley production is now forecast to fall 10% in 2010-11 from 2009<sup>64</sup>. This is a result of a decline in forecast area sown by 9% to 4.1 million hectares, the smallest planted area since 2002-03<sup>65</sup>.

### **Rural services in Australia**

183 AWB's Rural Services division provides a range of agribusiness needs including crop chemical, merchandise, fertiliser, cattle and sheep sales, live animal export, wool sales and handling, real estate and insurance.

184 The broader Australian rural services industry is highly diverse covering businesses involved in merchandising, livestock sales, real estate, finance and insurance. Other products and services include supply of fertilisers and chemicals, road freight transport and shearing.

185 Demand for rural services is primarily driven by:

- (a) farm performance
- (b) crop areas sown
- (c) livestock numbers
- (d) commodity prices
- (e) regional and global climatic conditions
- (f) foreign exchange rates.

186 Demand for livestock and crops is increasing globally due to population growth and increasing affluence in countries such as Brazil, Russia, India and China. An increase in living standards has been accompanied by an increase in demand for higher quality food, clothing and luxury goods. Changing dietary preferences are reflected in an increased demand for protein, fruit and vegetables as opposed to the traditional rice based diet.<sup>66</sup> Increased demand is likely to result in increasing prices for Australian livestock and crops, and improved farm profitability.

187 The effects of climatic conditions on demand vary by product and service in the rural services industry. For example, high rainfall leads to an increase in demand for fertilisers, herbicides and pesticides. The drought in 2006-07 caused many livestock producers to reduce herd numbers and a number of grain crops failed. In addition, the floods experienced in 2008-09 in Queensland and northern New South Wales impacted agricultural production.

188 Industry participants include AWB's Landmark division, RuralCo, Elders, Farmworks, Incitec Pivot, Nufarm plus a variety of independents.

<sup>63</sup> Source: ABARE *Crop report* June 2010.

<sup>64</sup> Source: ABARE *Australian Commodities* June quarter 2010.

<sup>65</sup> Ibid

<sup>66</sup> Source: Farmworks prospectus.

### Rural services outlook

- 189 In general, the current outlook for the rural services industry is optimistic, being underpinned by expected high levels of crop production in the coming year coupled with high prices, as well as expected growth in cattle numbers. The latest Rabobank survey of 1,300 Australian farmers found that 37% of farmers expect conditions to improve in the coming year, up from 29% in the previous quarter, while only 13% expect conditions to worsen. In addition to strong commodity prices, the increase in confidence is attributed to the steadiness and wide dispersion of winter rains in the eastern states, with rain coming at an ideal time for seed planting. The majority of primary producers are expecting favourable seasonal conditions to continue<sup>67</sup>.
- 190 ABARE forecasts world economic activity to achieve 3.9% growth in both 2010 and 2011, largely driven by robust economic performance in China and India, and partially offset by weaker performance in some of the major OECD countries<sup>68</sup>. In addition, Australian growth is forecast at 3.25% for 2010-11. IBISWorld forecasts the agribusiness industry to grow at an annualised rate of 4.5% to 30 June 2014<sup>69</sup>.
- 191 According to Austrade, there has been a large shift in the importance of Asia, the Americas and the Middle East for Australian agricultural exports, and specifically the USA, Japan, Argentina, Thailand and India. The Australia-US free trade agreement is currently providing Australian rural merchandise exports with increased international market opportunities. Key opportunities include agricultural machinery and technology, animal genetics, equine, agricultural service and natural fibres<sup>70</sup>.
- 192 Currently there are various factors impacting positively upon the dynamics of the rural services industry. In terms of livestock, the US cattle herd has now declined 13 out of the past 15 years, with an expected drop of one million head in 2010<sup>71</sup>. This is in response to high input costs, uncertainty around consumer demand and changing producer demographics and land use<sup>72</sup>. A decline in cattle numbers is expected to support higher cattle and beef prices in the market. The US is Australia's second largest export market for beef. In addition, stronger economic recovery in Australia's other major beef export markets (Japan, Republic of Korea, Chinese Taipei, Indonesia) could lead to stronger demand than forecast, particularly given the contraction in US beef cattle herd<sup>73</sup>. Recently, good Australian east coast rainfall has allowed strong restocking activity of cattle<sup>74</sup>.

<sup>67</sup> Source: Rabobank media release 30 August 2010.

<sup>68</sup> Source: ABARE *Australian commodities* June quarter 2010.

<sup>69</sup> Source: IBISWorld *Agribusiness in Australia* September 2009.

<sup>70</sup> Source: Austrade *Agribusiness overview – For Australian exporters*.

<sup>71</sup> Source: Rabobank *Agribusiness review – Australia and New Zealand* August 2010.

<sup>72</sup> Ibid

<sup>73</sup> Source: ABARE *Australian commodities* March quarter 2010.

<sup>74</sup> Source: Rabobank *Agribusiness review – Australia and New Zealand* August 2010.



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- 193 Australian sheep flocks have been in decline over recent years, and the industry has shifted towards meat production. This decline is forecast to continue until 2011-12<sup>75</sup>. However, ABARE forecasts that stock rebuilding and income growth in China from 2010 will lead to a recovery in wool prices and sheep meat prices, and result in a gradual rebuilding of the Australian sheep flock<sup>76</sup>.
- 194 The following table provides a summary of forecast livestock and wool exports for Australia to 2015:

Australian exports of cattle, sheep and wool (forecast)						
Year ended 30 June	2010	2011	2012	2013	2014	2015
Live cattle – quantity (000s)	934	953	973	994	1,017	1,041
Live sheep – quantity (000s)	3,700	3,400	3,400	3,450	3,500	3,500
Wool – greasy equiv. (kt)	400	385	381	387	395	402

**Source:** ABARE *Australian commodities* March quarter 2010.

<sup>75</sup> Source: ABARE *Australian commodities* March quarter 2010.

<sup>76</sup> Source: Rabobank *Agribusiness review – Australia and New Zealand* August 2010.

## V Valuation approach

### Valuation methodology

- 195 ASIC RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 196 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV, the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 197 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 198 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

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- 199 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

### Methodologies selected

- 200 The market value of AWB has been assessed by aggregating the market value of the individual business segments, together with the realisable value of net surplus assets and deducting net borrowings.
- 201 The value of the business segments have been made on the basis of market value as a going concern.
- 202 We have adopted the following valuation methodologies to value each of AWB's business segments:

Valuation methodologies		
Business segment	Primary valuation methods	Reason
Rural Services	Capitalisation of EBIT	Difficult <sup>(1)</sup> to reliably predict future free cash flows given volatile nature of the agricultural service sector
Grain Marketing	Capitalisation of EBIT (subject to being supported by the realisable value of net tangible operating assets <sup>(2)</sup> with a limited amount of goodwill <sup>(3)</sup> )	Reflects "trading" nature of operations (with limited goodwill <sup>(3)</sup> )
Logistics and Other Investments	Capitalisation of EBIT	Difficult <sup>(1)</sup> to reliably predict future free cash flows due to variability of underlying crop production which impacts asset utilisation
Pool Management and Harvest Finance	Capitalisation of net profit after interest and tax <sup>(4)</sup>	Harvest Finance earnings comprise net interest income from pass-through funding of loan receivables
International Commodity Management	Capitalisation of EBIT (subject to being supported by the realisable value of net tangible operating assets <sup>(2)</sup> with a limited amount of goodwill)	Reflects "trading" nature of operations (with limited goodwill)
Other / Corporate costs	Capitalisation of EBIT <sup>(5)</sup> (at weighted average multiple implied by other segments)	Corporate costs have been allocated pro-rata to segment earnings

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**Note:**

- 1 DCF valuations are sensitive to annual cash flows. The volatility inherent in the rural based businesses conducted by AWB means that future cash flows cannot be reliably predicted on a year to year basis.
  - 2 Largely trading stock, derivatives and receivables.
  - 3 Having regard to the future earnings, supported by synergistic benefits that are likely to arise as a result of the segment being integrated with the other Australian commodity related businesses.
  - 4 A capitalisation of profits after interest method is appropriate to value this business because its activities largely comprise the lending of money. The interest expense of this business is therefore fundamental to its operations, rather than a reflection of a chosen level of gearing of the business. Accordingly, a valuation methodology based on capitalisation of earnings before interest expense is not appropriate.
  - 5 Net profit after tax has been grossed up in the case of Pool Management and Harvest Finance.
- 

- 203 Under the capitalisation of EBIT<sup>77</sup> methodology, the value of the business is represented by its (normalised) underlying EBIT, capitalised at a rate (or EBIT multiple) reflecting the risks inherent in those earnings.
- 204 In order to cross-check the valuation we have considered the earnings multiples implied by our valuation in comparison with the multiples implied by recent transaction evidence in the sector, the carrying value of net tangible operating assets employed in each segment and the inferred price earnings (PE) multiple on a whole-of-entity basis.

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<sup>77</sup> Similarly, for the capitalisation of net profits after tax which is capitalised at a PE multiple.

## VI Valuation of AWB

### Earnings multiples

205 The selection of the appropriate EBIT and PE multiple to apply is a matter of judgement, but normally involves consideration of a number of factors including, but not limited to:

- (a) the volatility and quality of earnings
- (b) the quality of the management and the likely continuity of management
- (c) the nature and size of the business
- (d) the spread and financial standing of customers
- (e) the financial structure of the business and its gearing
- (f) the multiples that have been paid in recent acquisitions of businesses operating in or exposed to the same broad industry sectors
- (g) the multiples attributed by share market investors to listed companies operating in or exposed to the same broad industry sectors (adjusted for a premium for control)
- (h) the future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- (i) the cyclical nature of the industry
- (j) expected changes in interest rates
- (k) the asset backing of the underlying business segments and the quality and saleability of the assets
- (l) historical and prospective earnings
- (m) the recent significant increased interest in, and values of, food production and rural based businesses.

206 Further to the above, due to the high level of earnings volatility, earnings multiples for companies operating in the agricultural sector can vary significantly depending on a range of factors including current and expected seasonal conditions and the extent to which each company is exposed to agricultural risk. In particular, it should be noted that:

- (a) the historical (or forecast) earnings multiples for companies whose historical (or forecast) earnings have been adversely impacted by poor seasonal or climatic conditions tend to be high, but are generally much lower when calculated as a multiple of earnings derived under normal (average) seasonal conditions
- (b) forecast earnings beyond the current year generally reflect an assumption that seasonal and climatic conditions will revert to more normal (average) conditions due to the inability to reliably forecast future weather patterns
- (c) companies with larger more geographically diverse operations are generally less impacted by adverse climatic conditions in a specific region, and therefore generally trade on more consistent multiples.



- 207 As our assessment of earnings reflects the medium to long-term earnings potential based on average seasonal and climatic conditions, our assessed earnings multiples have been assessed on a consistent basis. More reliance has therefore been placed on the listed company multiples for FY11 and beyond (as these generally assume normal seasonal and climatic conditions) and transaction multiples based on the medium / long-term earnings potential of the businesses acquired.
- 208 We discuss below specific factors taken into consideration when assessing the appropriate earnings multiple range for each of AWB's business segments.

#### Listed company multiples

- 209 The EBIT multiples for listed companies operating in the agricultural sector are set out in Appendix C.

Trading company multiples <sup>(1)</sup>			
	EBIT multiple		
	FY10	FY11	FY12
<b>AWB<sup>(2)</sup></b>	10.8	8.7	8.1
<b>Other Australasian companies</b>			
Range	6.6 – 13.3	5.3 – 15.9	5.0 – 13.7
Mean	9.7	9.3	8.4
Median	10.7	8.7	7.9
<b>International companies</b>			
Range	9.5 – 15.9	7.1 – 16.6	6.6 – 12.3
Mean	12.2	10.7	8.7
Median	11.7	9.7	8.6

**Note:**

- 1 Based on analyst estimates.
- 2 Based upon share market trading immediately prior to the announcement of the (now withdrawn) GrainCorp / AWB merger proposal. We note that as AWB issued an earnings downgrade for the year to September 2010 on the same day as announcing the (now withdrawn) GrainCorp / AWB merger proposal, the price impact of this announcement is not reflected in the abovementioned multiple.

- 210 The above multiples are based on the listed market price of each companies' shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

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- 211 None of the businesses set out in Appendix C are directly comparable to AWB (as a whole). However, in our opinion the following companies provide some guidance when considering the appropriate multiple to apply to the Rural Services segment and, more generally, the ACM business (comprising Grain Marketing, Logistics and Other Investments, and the Pool Management and Harvest Finance<sup>78</sup> segments) and the ICM business:

Relevant company trading multiples <sup>(1)</sup>				
	Enterprise value		EBIT multiple	
	A\$m	FY10 <sup>(1)</sup>	FY11	FY12
<b>Companies relevant to the Rural Services segment</b>				
Agrium	13,418	11.1	8.8	9.2
Elders	701	n/m	15.9	11.4
PGG Wrightson	370	6.7	6.8	6.3
Ruralco Holdings	219	7.7	6.9	6.4
<b>Companies relevant to Australian Commodities Management<sup>(3)</sup></b>				
Bunge	11,128	10.9	8.7	7.5
Viterra Inc	4,177	12.3	9.5	8.6
Kernel Holding SA	1,830	9.5	7.1	6.8
GrainCorp <sup>(4)</sup>	1,691	12.4	8.8	8.5
Alliance Grain Traders	574	11.7	8.2	6.6

**Note:**

- 1 Enterprise values and multiples calculated as at 8 September 2010. Foreign denominations are translated to Australian dollars as at 8 September 2010.
  - 2 FY10 multiples are based on historical results where available and otherwise consensus forecasts. Forecast earnings are based on Bloomberg broker average forecasts as at 8 September 2010 (excluding outliers and outdated forecasts).
  - 3 Comprising Grain Marketing, Logistics and Other Investments and Pool Management and Harvest Finance.
  - 4 Based upon share market trading immediately prior to the announcement of the (now withdrawn) GrainCorp / AWB merger proposal.
- n/m – not meaningful.

- 212 However, with respect to the above, it should be noted that:

- a number of the companies are significantly larger than the Rural Services and Commodities Management businesses of AWB. They also undertake a number of other activities that are not comparable to the above AWB businesses
- Agrium has significant other activities which are not comparable to AWB's Rural Services segment, e.g. wholesale production of crop nutrients
- in respect of Elders:
  - we note that since the announcement of the (now withdrawn) GrainCorp / AWB merger proposal, Elders' share price has significantly increased, due in part to market perception that it may also be a takeover target. The FY11 multiple may therefore incorporate some premium for control
  - the company has other activities besides that of rural services e.g. automotive components, and forestry

<sup>78</sup> Where a PE multiple has been applied to net profits after tax.

- (iii) the company has issued a number of recent earnings downgrades in the last six months
- (iv) the company has a high level of gearing
- (d) Ruralco is significantly smaller than AWB's Rural Services segment and should therefore trade on a lower multiple than Rural Services (which has significant market share in each of the sectors in which it operates).

### Transaction evidence

- 213 As set out in Appendix D there have been a number of transactions in the agricultural sector (both domestically and internationally) in recent years. A summary of the EBIT multiples implied by these transactions (which in most cases reflected the acquisitions of controlling interests) is shown below:

Transaction multiples		
	EBIT multiples	
	Historical	Forecast
Range	8.0 – 26.8	10.0 – 17.3
Mean	17.4	12.3
Median	17.6	11.4

- 214 In relation to the above transaction evidence, we note that a large majority of the transactions occurred prior to the occurrence of the global financial crisis (GFC) and none of the businesses acquired are directly comparable to AWB (as a whole).
- 215 Transactions relevant to an assessment of the appropriate EBIT multiples for AWB's Rural Services and Logistics segments are as follows:

Relevant transaction evidence			
	Purchase price <sup>(1)</sup> A\$m	EBIT multiple	
		Historical	Forecast
<b>Transactions relevant to the Rural Services segment</b>			
Roberts (Dec 05)	181	11.0	11.5 <sup>(2)</sup>
Wrightson (Jul 05)	415	18.9	10.3
Landmark (Aug 03)	825	15.3	11.4
<b>Transactions relevant to the Logistics segment</b>			
ABB Grain (May 09)	2,224	20.3	11.3 <sup>(2), (3)</sup>
Ausbulk (May 04)	689	20.9	13.8
Grainco (Feb 03)	245	26.8	n/a

**Note:**

- 1 Enterprise value. Foreign denominations are translated to Australian dollars as at the date of announcement.
  - 2 Multiple reflects an estimation of depreciation based upon historic experience.
  - 3 Multiple for ABB Grain is 11.3 times for the second forecast year. In our view, this is more reflective of a multiple based upon maintainable earnings than the 17.3 times forecast multiple for the first forecast year.
- n/a – not available.

### Conclusion on appropriate EBIT and PE multiples

- 216 The earnings history and outlook of AWB is particularly volatile, reflecting the largely uncontrollable factors to which it is exposed (e.g. climate, harvest volumes, world commodity prices, etc) and the nature of AWB's business activities. As a result, it is neither practical nor realistic to assess a single point estimate or narrow range of future earnings to which an earnings multiple can be confidently applied.
- 217 In our view, therefore, it is appropriate to apply a higher earnings multiple to our assessed lower range of earnings adopted for valuation purposes and a lower earnings multiple to our assessed higher range of earnings. This is because any purchaser of AWB would be more confident about achieving, and thus paying a higher multiple for, lower range earnings, and vice versa for higher range earnings.
- 218 On balance, after considering all of the above factors and after allowing for the lower multiples applicable to earnings from associates (over which AWB does not exercise unfettered control), and to earnings from commodity trading, (reflecting the lower multiple applied to "trading" profits) we consider that the following EBIT and PE multiples are appropriate to the business segments of AWB.

Earnings multiple range selected		
Business segment	Earnings multiple range	Principal reasons
Rural Services	12.0 – 13.0 (EBIT)	<ul style="list-style-type: none"> <li>• Dominant market share in the majority of the sectors in which it operates</li> <li>• Transformational initiatives driving significant earnings growth over the next three financial years (offset by implementation cost and risks etc)</li> <li>• Associate EBIT income which is capitalised on a minority rather than controlling interest basis</li> </ul>
Grain Marketing	10.0 – 11.0 (EBIT)	<ul style="list-style-type: none"> <li>• Valuation supported by realisable value of net operating assets with limited goodwill due to "trading" nature of operations</li> </ul>
Logistics and Other Investments	12.0 – 13.0 (EBIT)	<ul style="list-style-type: none"> <li>• Relatively new and advanced facilities</li> <li>• Essential infrastructure for growers</li> <li>• Consistent with transaction multiples</li> <li>• Scalability due to current under-utilisation</li> <li>• Associate EBIT income which is capitalised on a minority rather than controlling interest basis</li> </ul>

Earnings multiple range selected		
Business segment	Earnings multiple range	Principal reasons
Pool Management and Harvest Finance	8.0 – 9.0 (PE)	<ul style="list-style-type: none"> <li>• Largest aggregator of grain pools in Australia</li> <li>• Change in basis of charging for Pool Management to a lower risk, less volatile, dollars-per-tonne basis</li> <li>• ACM listed company multiples (paragraph 211) reflect higher multiples for logistics earnings and lower multiples for Pool Management / Harvest Finance earnings</li> <li>• Harvest Finance earnings comprise net interest income from pass-through funding</li> </ul>
International Commodity Management	9.5 – 10.5 (EBIT)	<ul style="list-style-type: none"> <li>• Valuation supported by realisable value of net operating assets with limited goodwill due to “trading” nature of operations</li> </ul>
Other / Corporate costs	10.0 – 11.0 (EBIT)	<ul style="list-style-type: none"> <li>• Weighted average multiple implied by other segments</li> </ul>

- 219 In the case of Pool Management and Harvest Finance there are no listed directly comparable companies from which a PE multiple can be derived. Accordingly, we have calculated the applicable PE multiple based on the capital asset pricing model (CAPM).

### Valuation of Rural Services

- 220 Rural Services incorporates the Landmark distribution network and investments in AWH (50%) and RD1 (New Zealand) (50%). Landmark’s two largest contributors to gross margin are the merchandise (51%) and livestock (21%) activities, with crop chemicals comprising some 50% of merchandise sales. AWB’s share of the earnings from equity accounted investments (that relate to the Rural Services segment) have been included in the results set out below:

Rural Services – earnings <sup>(1),(2)</sup>				
	Full year ended			
	30 Sep 07	30 Sep 08	30 Sep 09	30 Sep 10
	Actual	Actual	Actual	Forecast <sup>(3)</sup>
	\$m	\$m	\$m	\$m
Segment EBIT including OEI <sup>(4),(5)</sup>	42.8	74.5	37.4	48.0
Attributable to OEI	(0.4)	(0.9)	(5.6)	(3.0)
AWB’s share of associates’ EBIT <sup>(6)</sup>	11.6	10.8	5.8	7.0
Rural Services’ EBIT attributable to AWB members	54.0	84.4	37.6	52.0



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**Note:**

- 1 Segment EBIT results exclude earnings of LFS, which has been sold by AWB.
- 2 Rounding exists in the calculations.
- 3 Management forecast based on unaudited management accounts to 31 August 2010. Due to the inherent volatility in the earnings of the segment, audited full year results may vary significantly from that forecast.
- 4 Outside equity interests.
- 5 The FY07, FY08 and FY09 results include the EBIT contribution from the Insurance and Stocklease businesses.
- 6 Share of EBIT from associates (being RD1 and AWH).

**Source:** AWB management.

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- 221 The earnings of the Rural Services segment exhibit a high level of variability correlated with agricultural conditions within its relevant markets. The inherent volatility is due to factors such as:
- (a) variability in climatic and weather conditions
  - (b) short-term global variations in supply and demand of agricultural products and inputs
  - (c) longer term commodity cycles
  - (d) change in consumer tastes and farming / agricultural practices
  - (e) foreign exchange rate fluctuations
  - (f) changes in farmers' confidence levels.
- 222 The earnings of AWB's Rural Services segment are expected to continue to be relatively volatile into the future.
- 223 Key factors that have impacted upon recent and short-term forecast earnings of AWB's Rural Services segment include:

***Negative factors***

- (a) historically low fertiliser prices, notwithstanding higher sales volumes
- (b) lower levels of discretionary spending by farmers following generally poor agricultural conditions during 2009, principally impacting merchandise sales
- (c) unfavourable movements in the US\$. This adversely impacts upon earnings by both:
  - (i) decreasing the A\$ equivalent of sales of commodities denominated in US\$
  - (ii) decreasing the total sales value of imported product denominated in US\$, for which a relatively stable local mark-up only can be applied – principally, crop chemicals<sup>79</sup>
- (d) lower earnings from animal health products, due to record or near record low sheep flock and cattle herd numbers
- (e) lower earnings from real estate due to low demand for rural properties

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<sup>79</sup> As imported chemicals are denominated in US\$, a weaker US\$ combined with relatively fixed retail margins in Australia results in lower sales values in Australia in A\$ terms.

- (f) on-going implementation costs of the new SAP system
- (g) other restructuring costs being incurred, the benefit of which is yet to accrue

***Positive factors***

- (h) crop production levels for 2010-11 are forecast to be higher than those for FY09 due to a stronger price outlook
- (i) favourable weather patterns
- (j) farmer confidence levels have improved significantly
- (k) significant future benefits are expected to arise from the initiatives being undertaken pursuant to the transformational process that was commenced in mid-2007.

**Transformational process - initiatives**

- 224 AWB management are forecasting significant growth in earnings for FY11 and beyond due, in particular, to the significant profit improvement expected from initiatives that form part of the transformational process announced in mid-2007.
- 225 A broad overview of the specific initiatives that are underpinning management's forecast growth in earnings of the Rural Services segment is as follows:
- (a) **Administration consolidation** – this principally consists of function automation and centralisation subsequent to the completed implementation of the new SAP system
  - (b) **Network optimisation** – this comprises a review and restructuring of resources to better match local branch requirements with customer needs
  - (c) **Improved pricing management** – this comprises better management of product and supplier mix and better and more consistent pricing management.

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- 226 These and other initiatives<sup>80</sup> are expected to result in significant net benefits relative to historical profit levels, with the full benefits expected to be realised by FY13. These benefits will be offset, in part, by one-off implementation costs and increased annual IT related depreciation charges<sup>81</sup>.
- 227 AWB commissioned two confidential independent reports to examine, amongst other things, AWB's forecast for the Rural Services segment including the abovementioned initiatives, in particular, the costs involved, the expected timing of realisation of expected benefits, the likelihood of the net benefits being realised and their overall reasonableness in the context of similar initiatives undertaken by other Australian companies.
- 228 LEA has reviewed and considered the two independent reports in forming its view as to the value of the initiatives and the overall Rural Services segment and valued the net benefit of these initiatives on a risk adjusted net present value basis.

**Assessment of value**

- 229 As stated above, earnings for AWB's Rural Services businesses are likely to continue to be highly variable as a result of climatic, market and economic conditions. Accordingly, arriving at a single point estimate of maintainable earnings for valuation purposes is difficult. However, the capitalisation multiples applied by us reflects a longer term view of value in relation to expected earnings, including an appropriate allowance for both volatility and growth expectations in the selected capitalisation multiples applied.
- 230 Having considered all the abovementioned factors, and, in particular, the significant profit improvements expected from the transformational process initiatives, LEA has assessed earnings for valuation purposes of the Rural Services segment, including AWB's share of associates' EBIT, as follows:

Rural Services – EBIT for valuation purposes		
	Low	High
	\$m	\$m
EBIT for valuation purposes <sup>(1)</sup>	55.0	70.0

**Note:**

- 1 Includes AWB's share of EBIT from associates and an allowance for the benefit of the transformational process initiatives.

- 231 In assessing the appropriate controlling interest EBIT multiple for the Rural Services segment LEA has considered, in particular, the higher than average expected earnings growth from the Landmark business due to the transformational initiatives, the risks involved in generating the benefits of those initiatives, and the extent to which a purchaser of the business would be prepared to pay away the capitalised value of benefits yet to be generated. We have also applied a lower EBIT multiple to AWB's share of earnings from associates (reflecting the minority interest position held). Our assessed blended EBIT multiple for the Rural Services segment is:

<sup>80</sup> Which have not been disclosed for reasons of confidentiality.

<sup>81</sup> The quantum of these net benefits is commercially sensitive.

Rural Services – EBIT multiple		
	Earnings range	
	Low	High
EBIT multiple (blended)	13.0	12.0

- 232 On this basis, LEA's valuation of AWB's Rural Services segment ranges from \$715 million to \$840 million, as follows:

Rural Services – valuation assessment		
	Low	High
EBIT (\$m)	55.0	70.0
EBIT multiple	13.0	12.0
Enterprise value – Rural Services (\$m)	715.0	840.0

- 233 Net tangible operating assets<sup>82</sup> employed in AWB's Rural Services segment<sup>83</sup> averaged some \$390 million<sup>84</sup> for the 12 months to (and including) July 2010. In addition, Rural Services has investments in associates with AWB's share of average net tangible operating assets of some \$48 million for the 12 months to July 2010 (inclusive)<sup>85</sup>. Given the retail and distribution nature of the business, LEA believes that a high level of goodwill is reasonable.

### Valuation of Grain Marketing

- 234 AWB's Grain Marketing segment principally comprises grain acquisition and sale activities as principal. The Grain Marketing segment also includes the (currently, relatively minor) container freight business. Although principally trading in wheat<sup>86</sup>, AWB also trades oilseed, sorghum, barley and pulses.

- 235 The historic and projected EBIT for the Grain Marketing segment of AWB are as follows:

Grain Marketing – earnings				
	Full year ended			
	30 Sep 07	30 Sep 08	30 Sep 09	30 Sep 10
	Actual	Actual	Actual	Forecast <sup>(1)</sup>
	\$m	\$m	\$m	\$m
Segment EBIT	2.8	55.3	44.0	5.0

**Note:**

- 1 Management forecast based on unaudited management accounts to 31 August 2010. Due to the inherent volatility in the earnings of the segment, audited full year results may vary significantly from that forecast.

**Source:** AWB management.

<sup>82</sup> Comprising non-current assets and net working capital, but excluding intangible assets, and available for sale assets.

<sup>83</sup> Excluding LFS.

<sup>84</sup> Net of outside equity interests.

<sup>85</sup> Based on AWB's pro-rata interest in those associates.

<sup>86</sup> Approximately 80% of purchases.

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- 236 Current period earnings from AWB's Grain Marketing segment are much lower than those achieved in previous periods. The decline in earnings is due, in particular to:
- (a) reduced margins on wheat sales<sup>87</sup> and reduced volumes. Volumes for the half year to March 2010 were down some 40% on the previous corresponding period due to Australian prices being higher than prevailing export parity prices from competing origins
  - (b) more aggressive price competition in both up-country origination (AWB is now in a competitive market for wheat acquisition) and f.o.b. sales
  - (c) lower volatility in pricing, which has lead to fewer trading opportunities (and thus lower earnings from market positions<sup>88</sup>)
  - (d) a smaller sorghum crop, leading to an overall decline in non-wheat sales for the half year to March 2010 of 50% compared to the previous corresponding period.

**Assessment of value**

- 237 AWB's Grain Marketing segment adopts a range of trading strategies across a variety of commodities.
- 238 AWB's Grain Marketing segment earnings depend principally on price volatility, "basis" position movement and the movement in the differential between Australian grain prices and the prices of competing origins of grain in which AWB holds an offsetting position.
- 239 However, AWB's Grain Marketing segment is not anticipating any material increase in earnings in the FY10 as a result of the recent wheat price increases caused by the adverse climatic conditions in Northern Europe and Russia.
- 240 After considering the above, and, in particular, the average earnings over the four years to FY10, we have adopted the following level of EBIT for valuation purposes:

Grain Marketing – EBIT for valuation purposes		
	Low	High
	\$m	\$m
EBIT valuation purposes	25.0	30.0

- 241 In assessing the appropriate controlling interest earnings multiple for the Grain Marketing segment LEA has considered, in particular, the trading nature of the business and the value of average net tangible operating assets employed<sup>89</sup> of some \$235 million for the 12 months to (and including) July 2010 (approximately \$240 million as at 31 July 2010). Given the trading nature of this business, LEA considers that a low level of goodwill is appropriate. Our assessed EBIT multiple for the Grain Marketing segment is:

<sup>87</sup> Most trading positions were contracted prior to the recent significant increase in the US and Northern Europe wheat prices following the severe decline, in particular, of the Russian wheat harvest.

<sup>88</sup> For trading activities, higher volatility provides more trading opportunities. AWB's market experience is that volatility is generally lower in cyclical low price periods.

<sup>89</sup> Largely trading stock, derivatives and receivables.



Grain Marketing – EBIT multiple		
	Earnings range	
	Low	High
EBIT multiple	11.0	10.0

- 242 LEA's valuation of AWB's Grain Marketing segment is therefore between \$275 million and \$300 million, as follows:

Grain Marketing – valuation assessment		
	Low	High
EBIT (\$m)	25.0	30.0
EBIT multiple	11.0	10.0
Enterprise value – Grain Marketing (\$m)	275.0	300.0

### Valuation of Logistics and Other Investments

- 243 AWB's Logistics segment comprises chartering, storage and freight (including rail) operations, AWB's 50% interest in the Melbourne Port Terminal businesses and AWB's equity accounted investments in Five Star Flour Mills Company SAE and Five Star Feed Mills and Animal Production Company SAE in Egypt. The Logistics chartering business is involved in:

- (a) providing vessels to the AWB businesses
- (b) providing freight services to third parties
- (c) trading in ocean freight positions.

- 244 The historical and projected earnings for the Logistics segment of AWB are as follows:

Logistics – earnings <sup>(1)</sup>				
	30 Sep 07	Full year ended		30 Sep 10
	Actual	30 Sep 08	30 Sep 09	Forecast <sup>(2)</sup>
	\$m	Actual	Actual	\$m
Segment EBIT including OEI <sup>(3)</sup>	(5.3)	(11.1)	6.8	13.0
Attributable to OEI	(0.3)	(0.7)	(0.8)	(1.0)
AWB's share of associates' EBIT <sup>(4)</sup>	2.9	6.5	7.9	8.0
Logistics' EBIT attributable to AWB members	(2.7)	(5.3)	13.9	20.0

**Note:**

- 1 Rounding exists in the calculations.
- 2 Management forecast based on unaudited management accounts to 31 August 2010. Due to the inherent volatility in the earnings of the segment, audited full year results may vary significantly from that forecast.
- 3 Outside equity interests.
- 4 Share of EBIT from associates (being Five Star Flour Mills Company SAE and Five Star Feed Mills and Animal Production Company SAE).

**Source:** AWB management.

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- 245 Earnings from AWB's Logistics segment for FY10 are forecast to be higher than for the previous full 12 month period:
- (a) the FY10 forecast EBIT includes a profit of some \$9 million arising from a sale and lease back transaction of rail assets
  - (b) due to lower grain export volumes, the resulting greater volumes held in storage and, therefore, higher storage revenue
  - (c) in part, offset by:
    - (i) lower utilisation of AWB's rolling stock assets (although on increased capacity)
    - (ii) reduced contribution from chartering
    - (iii) lower volumes passing through the Melbourne Port Terminal.
- 246 The reported earnings (but not the cash flow) of the AWB Logistics segment are significantly impacted by depreciation charges with an annual depreciation charge of some \$10 million per annum.

**Assessment of value**

- 247 GrainFlow has introduced a more integrated freight and storage offering for growers, using AWB's rail transport capacity from AWB's newly acquired fleet of rail rolling stock. However, this rolling stock is being delivered at a time when volumes handled by AWB have been at cyclical lows. Based on crop conditions to date, AWB are forecasting improvements in GrainFlow's receival tonnes and carryout tonnes for the FY11 year.
- 248 Although AWB has the logistical capacity to handle increased volumes, and thus earnings are scalable from lower harvest volumes. AWB is therefore currently holding underutilised assets. Longer term, therefore, the earnings generated by AWB's Logistics segment will remain dependent on volumes handled<sup>90</sup>, which is principally a function of crop conditions and yields in the Eastern Australian wheat belt regions<sup>91</sup>. LEA has assessed earnings for valuation purposes as follows:

Logistics – EBIT for valuation purposes		
	Low \$m	High \$m
EBIT for valuation purposes <sup>(1)</sup>	18.0	20.0

**Note:**

- 1 Includes AWB's share of EBIT from associates.

<sup>90</sup> Including stored and transported.

<sup>91</sup> AWB having no material infrastructure assets in the WA wheat growing region. Some of AWB's current (standard gauge) rolling stock could be redeployed to SA and on some (limited) track in WA, however, much of the internal WA rail network is narrow gauge.

249 In assessing an appropriate earnings multiple to apply to AWB's Logistics segment, LEA has had particular regard to the following:

- (a) earnings are currently still sub-optimal principally due to the recent low harvest volumes in some regions of GrainFlow's catchment area
- (b) AWB has the capacity to handle significantly higher volumes
- (c) the lower cash flow risks of the infrastructure assets employed in the Logistics segment
- (d) the (in our view) conservative depreciation policy adopted by AWB for its logistics assets.

250 After considering these factors, LEA has adopted blended<sup>92</sup> EBIT multiples for AWB's Logistics segment as follows:

Logistics – EBIT multiple		Earnings range	
		Low	High
EBIT multiple (blended)		13.0	12.0

251 LEA's valuation of AWB's Logistics segment is therefore \$234 million to \$240 million, calculated as follows:

Logistics – valuation assessment		
	Low	High
EBIT (\$m)	18.0	20.0
EBIT multiple	13.0	12.0
Enterprise value – Logistics (\$m)	234.0	240.0

252 LEA notes that the carrying value of net tangible operating assets employed within AWB's Logistics segment for the 12 months to (and including) July 2010 averaged some \$130 million<sup>93</sup>. In addition, the Logistics segment has investments in associates with AWB's share of average net tangible operating assets of some \$40 million for the 12 months to July 2010 (inclusive)<sup>94</sup>. Given the current low level of utilisation of the assets employed in this business and the high earnings multiples currently applicable to logistics type businesses, LEA considers that the level of goodwill implied by our valuation is reasonable.

### Valuation of Pool Management and Harvest Finance

253 The primary role of Pool Management is to aggregate and market pooled wheat on behalf of growers. Harvest Finance provides finance to growers secured against the grower's wheat delivery.

<sup>92</sup> Reflecting the lower EBIT multiple applied to AWB's share of earnings from associates.

<sup>93</sup> Net of outside equity interests.

<sup>94</sup> Based on AWB's pro-rata interest in those associates.

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- 254 Historic and projected earnings for the Pool Management and Harvest Finance segment of AWB are as follows:

Pool Management and Harvest Finance – earnings after tax				
	30 Sep 07	Full year ended		30 Sep 10
	Actual	30 Sep 08	30 Sep 09	Forecast <sup>(1)</sup>
	\$m	Actual	Actual	\$m
		\$m	\$m	
EBIT as reported by AWB <sup>(2)</sup>	15.0	34.2	10.0	15.0
Less notional tax at 30%	(4.5)	(10.3)	(3.0)	(4.5)
Earnings after notional tax	10.5	23.9	7.0	10.5

**Note:**

- 1 Management forecast based on unaudited management accounts to 31 August 2010. Due to the inherent volatility in the earnings of the segment, audited full year results may vary significantly from that forecast.
- 2 We note that earnings for Harvest Finance reflects net interest income (i.e. net of debt servicing costs on Harvest Finance's pass-through debt).

**Source:** AWB management.

- 255 AWB has changed the manner in which it charges for pooling products for grain delivered into the pools to a flat priced fee of \$6.90 per tonne for deliveries into the 2009-10 pool.
- 256 In prior years, the management fee was calculated as 1.75% of gross pool return. With AWB's pool management fee now being a volume based fee, this should lead to some reduction in the volatility of earnings, which in future will be primarily volume dependent rather than being both price and volume dependent.
- 257 AWB Pool Management on-charges to the growers handling and logistics charges incurred by AWB Pool Management. Pool deliveries of 2.7mt for the 2009-10 pool is consistent with the prior year in terms of market share. The forecast for the year to 30 September 2010 includes some \$1.8 million residual income following the finalisation of the 2008-09 pool<sup>95</sup>. Gross pool value for the 2008-09 pool amounted to some \$870 million.
- 258 Harvest Finance earnings for 2010 are expected to be largely in line with budget and consistent with previous year earnings, notwithstanding the emergence of new entrants in the finance market and farmers needing lower levels of funding due to selling lower harvest volumes and more farmers selling wheat for immediate cash payment.
- 259 In November 2009, AWB opened its inaugural barley pool to coincide with deregulation of the WA barley market for exports.

<sup>95</sup> Pools can remain open for anywhere from 12 to 18 months. In a flat fee per tonne charging environment, where income is recorded by AWB as grain is sold, income can be generated from a single pool over a duration of over 12 months.

### Assessment of value

260 Future earnings from AWB's Pool Management and Harvest Finance segment are principally a function of the size of the Australian wheat crop, but are also impacted by:

- (a) changes in the extent to which growers are prepared to commit into the pool
- (b) the take-up of Harvest Finance by growers
- (c) wheat prices and the AUD/USD exchange rate.

261 AWB has announced<sup>96</sup> that it will be offering an early commitment premium of \$15 a tonne to growers that elect early commitment to AWB's 2010-11 season wheat pools. On 9 August 2010, AWB announced that it had raised its forecast wheat pool returns for the 2010-11 season by up to \$44 a tonne as a result of the market response to concerns regarding supply shortages from Russia, Kazakhstan and northern Europe due to drought, and due to the Russian government imposing a ban on wheat exports, and again on 7 September 2010 announced that it had raised forecast wheat pool returns for the 2010-11 season by a further \$9 to \$22 a tonne. However, longer term wheat prices are expected to revert to long-term trend prices.

262 LEA has assessed earnings for valuation purposes as follows:

Pool Management and Harvest Finance – earnings for valuation purposes		
	Low \$m	High \$m
Earnings after interest and tax for valuation purposes <sup>(1)</sup>	11.0	14.0

**Note:**

- 1 Earnings for Harvest Finance reflects net interest income. These results are therefore net of debt servicing costs on Harvest Finance's pass-through debt.

263 In assessing an appropriate earnings multiple to apply to AWB's Pool Management and Harvest Finance segment, LEA has had particular regard to the following:

- (a) the increased level of competition for wheat exporting subsequent to the removal of the 'single desk'
- (b) the change in the basis of charging to a lower risk, less volatile, dollars per tonne basis
- (c) the nature of segment earnings, which is a mixture of earnings including net interest income from Harvest Finance activities, and earnings from Pool Management activities
- (d) the "in-substance" similarities between the Pool Management activities to funds management activities, and Harvest Finance activities to traditional finance company lending activities
- (e) the equity capital required by the Harvest Finance business to meet the significant seasonal fluctuations in the level of pass-through receivables

<sup>96</sup> 25 May 2010.



- (f) the lower PE multiple applicable to the Harvest Finance business whose receivables are concentrated by industry sector, geographical locations and climatic vulnerability relative to finance companies generally.

264 After considering these factors, and, in particular, the multiple derived from the CAPM, LEA has adopted PE multiples for AWB's Pool Management and Harvest Finance segment as follows:

Pool Management Services and Harvest Finance – earnings multiple		
	Earnings range	
	Low	High
Price earnings multiple <sup>(1)</sup>	9.0	8.0

**Note:**

- 1 Because interest expense on debt “passed through” to customers is fundamental to the Harvest Finance component of this business, a capitalisation of earnings after interest methodology is appropriate.

265 On this basis, LEA's valuation of AWB's Pool Management and Harvest Finance segment ranges from \$99 million to \$112 million, as follows:

Pool Management Services and Harvest Finance – valuation assessment		
	Low	High
Earnings after interest and tax (\$m)	11.0	14.0
Earnings multiple	9.0	8.0
Value <sup>(1)</sup> – Pool Management and Harvest Finance (\$m)	99.0	112.0

**Note:**

- 1 Net of pass-through debt relating to Harvest Finance. That is, this is an equity value.

266 The carrying value of net tangible operating assets employed within AWB's Pool Management and Harvest Finance segment net of pass-through debt for the 12 months to (and including) July 2010 averaged some \$60 million. Given the fundamental nature of the Pool Management and Harvest finance business has characteristics similar to a mixture of a funds management business and a finance business, LEA considers that the implied level of goodwill is reasonable.

### Valuation of International Commodity Management

267 AWB's ICM segment principally comprises AWB's Geneva operations. It also includes AWB India, although this is relatively small.

268 AWB's Geneva operation comprises:

- (a) oilseeds – marketing of oilseeds and edible oils
- (b) grain trading
- (c) trade finance
- (d) chartering, which comprises a major element of AWB Geneva.



269 Historic and forecast earnings for the ICM segment of AWB are as follows:

<b>International Commodity Management – earnings<sup>(1),(2)</sup></b>				
	<b>Full year ended</b>			
	<b>30 Sep 07</b>	<b>30 Sep 08</b>	<b>30 Sep 09</b>	<b>30 Sep 10</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Forecast<sup>(3)</sup></b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Segment EBIT including OEI <sup>(4)</sup>	59.1	33.6	47.3	34.0
Attributable to OEI	(0.1)	(0.2)	-	-
ICM's EBIT attributable to AWB members	59.0	33.4	47.3	34.0

**Note:**

1 Excludes the earnings of AWB Brasil.

2 Rounding exists in the calculations.

3 Management forecast based on unaudited management accounts to 31 August 2010. Due to the inherent volatility in the earnings of the segment, audited full year results may vary significantly from that forecast.

4 Outside equity interests.

**Source:** AWB management.

270 The market conditions for AWB's ICM segment were relatively strong, resulting in higher earnings for FY09. Earnings for FY10 year to date are lower than the previous corresponding period, in line with management expectations. Freight and grains have maintained strong margin contributions, however, earnings from the oilseeds business are lower than budget due to adverse market volatility and costs associated with a restructuring of the business under new management<sup>97</sup>.

**Assessment of value**

271 AWB's Black Sea trading operations continue to grow, having completed its second full year of operation. In future years, AWB Geneva will predominantly focus its operations on the Trade Finance, Grain Trading and Chartering businesses.

272 LEA has assessed earnings for valuation purposes as follows:

<b>International Commodity Management – EBIT for valuation purposes</b>		
	<b>Low</b>	<b>High</b>
	<b>\$m</b>	<b>\$m</b>
EBIT for valuation purposes	37.0	44.0

273 In assessing the appropriate earnings multiple to apply to AWB's ICM segment, LEA has had particular regard to the following:

- (a) the nature of the operations conducted, which are principally transactional in nature, generally with an associated hedged position.
- (b) the reliance on arbitrage opportunities arising and being successfully executed
- (c) the growth potential from the Black Sea trading operations

<sup>97</sup> The majority of AWB ICM's volume is transaction based although relatively small positions are taken around that volume.

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(d) a relatively steady freight chartering business.

- 274 After considering the above factors, LEA has adopted earnings multiples for AWB's ICM segment as follows:

International Commodity Management – EBIT multiple		
	Earnings range	
	Low	High
EBIT multiple	10.5	9.5

- 275 LEA's valuation of AWB's ICM segment ranges from \$389 million to \$418 million, as follows:

International Commodity Management – valuation assessment		
	Low	High
EBIT (\$m)	37.0	44.0
EBIT multiple	10.5	9.5
Enterprise value – ICM (\$m)	388.5	418.0

- 276 During 2010, AWB engaged in negotiations with Gavilon for AWB to sell the AWB Geneva business to Gavilon and for the transfer of the AWB ACM segment into a 50/50 Joint Venture with Gavilon. The consideration for that transaction was on the basis of "book value plus a premium". The carrying value of net tangible operating assets of AWB's ICM segment for the 12 months to (and including) July 2010 averaged some \$370 million (approximately \$330 million as at 31 July 2010). Given the trading nature of this business, LEA considers that a low level of goodwill is appropriate.

### Allowance for net corporate costs

- 277 AWB's net corporate costs, which principally comprise head office and unallocated corporate costs net of sundry revenue and expense items, are as follows:

Net corporate costs				
	30 Sep 07	Full year ended		30 Sep 10
	Actual	30 Sep 08	30 Sep 09	Forecast <sup>(1)</sup>
	\$m	\$m	\$m	\$m
Segment EBIT <sup>(2)</sup>	(24.7)	(21.9)	(16.6) <sup>(3)</sup>	(27.0) <sup>(4)</sup>

**Note:**

1 Management forecast based on unaudited management accounts to 31 August 2010.

2 These exclude any restructuring costs.

3 FY09 included sundry revenue items relating to treasury trading activities and foreign exchange.

4 Includes some \$3 million of non-recurring costs.

**Source:** AWB management.

- 278 Net corporate costs in FY10 have increased from FY08 principally due to a change in the allocation of costs, as a result of a greater proportion of costs retained in the corporate centre, rather than being re-charged to the segments.

- 279 An acquirer of AWB would be able to eliminate costs of operating as a public company including listing fees, public company directors fees and other compliance costs. LEA has, on balance, adopted corporate overhead costs of \$16 million to \$18 million per annum.
- 280 LEA has deducted the following capitalised value of estimated on-going net corporate costs:

Net corporate costs – allowance for valuation purposes		
	Low \$m	High \$m
Estimated net corporate costs	16.0	18.0
EBIT multiple <sup>(1)</sup>	11.0	10.0
Capitalised net corporate costs	176.0	180.0

**Note:**

- 1 Weighted average multiple implied by other segments.

### Other assets and liabilities

- 281 AWB also have an interest in the following other net assets:

- (a) **Hi-Fert** – 50% interest in fertiliser Joint Venture with Elders (in the process of being restructured)
- (b) **AWB Brasil** – likely to be wound up, with debtors being pursued through the Courts
- (c) **LFS receivable** – AWB has a receivable of \$16 million in relation to LFS which is subject to finalising completion accounts
- (d) **carry forward tax losses** – AWB have carried forward tax losses as at 31 July 2010 of some \$198 million, plus potentially a further \$110 million (arising from the losses on the sale of LFS) and a further \$44 million (approximating the carrying value of AWB's share of tax losses embedded within the ELF Joint Venture (Hi-Fert)). The recoverability of these tax losses in future years will be subject to the "continuity of ownership" and "same business test" being met. Where these tests cannot be met, the benefit of carried forward tax losses will be lost
- (e) **Standard Chartered Bank settlement** – On 16 July 2010, AWB settled the long standing legal case between Standard Chartered Bank (SCB) and AWB (USA) Limited regarding a dispute arising from default by Indonesian counterparties to soybean contracts in 2003 and 2004. Consequently, on the settlement, AWB (USA) withdrew its appeal to the US Court of Appeals.

As required by the original judgment delivered in November 2007, AWB (USA) had paid SCB the sum of US\$25.5 million. This sum was fully provided for as a significant item in the 2008 accounts.

As a result of the settlement SCB refunded A\$8.8 million to AWB which will be recorded as a significant item in the 2009/10 accounts.

- (f) **employee share loans** – AWB have employee share loans of some \$3.8 million (net of provisions)

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- (g) **contingent liabilities** – AWB has quantified its off-balance sheet contingent liability position as at 31 March 2010 at \$11.2 million.

No provision has been made in respect of the Iraqi Government civil law suit

- (h) **franking credits** – franking credits of \$84 million as at 30 September 2009 (the position is substantially unchanged as at the date of this report).

282 The carrying value of other net assets, as at 31 March 2010 were:

Other net assets – carrying amounts <sup>(1)</sup>	
	\$m
Hi-Fert <sup>(2)</sup>	11
AWB Brasil	(5)
LFS receivable <sup>(3)</sup>	16
Carry forward tax losses at 30% <sup>(4)</sup>	106
Standard Chartered Bank settlement (as at 16 July 2010, not 31 March 2010)	9
Employee share loans	4
Contingent liabilities	(11)
Net book value of other assets	<u>130<sup>(5)</sup></u>

**Note:**

- 1 Numbers rounded.
- 2 AWB's 50% interest excluding deferred income tax assets of \$13.1 million (approximately \$44 million in losses) which have been captured under carry forward tax losses.
- 3 Excludes the deferred income tax assets of \$34.1 million (approximately \$110 million in losses) which have been captured under carry forward tax losses.
- 4 Includes 31 July 2010 tax losses of \$198 million, the potential Hi-Fert losses of \$44 million and the potential LFS losses of \$110 million.
- 5 In addition there are excess franking credits of \$84 million.

- 283 LEA has assessed the total value of these net assets at their expected net realisable value of \$50.0 million to \$70.0 million. For reasons of commercial confidentiality LEA has not disclosed details of the separate valuation assessment of each asset as this would potentially compromise sale and other commercial negotiations.

### Net corporate debt

- 284 AWB's net corporate debt fluctuates significantly over the course of the year, principally to fund inventory acquisitions and reducing as inventory is sold following the harvest cycle. This is particularly evident in the fluctuations in the Inventory financing and Rural trade receivables trust numbers set out below:

AWB – net Corporate debt <sup>(1),(2)</sup>		
	30 Sep 09 <sup>(3)</sup>	31 Mar 10 <sup>(4)</sup>
	\$m	\$m
Inventory finance (ACM)	82.2	200.0
Rural trade receivables trust	150.0	250.0
Syndicated facility	31.2	-
Unsecured notes (LFS customer deposits)	309.0	-
Interest bearing liabilities/working capital finance (ICM) <sup>(5)</sup>	355.7	275.8
Stocklease facility	11.5	-
Sub-total	<u>939.6</u>	<u>725.8</u>

AWB – net Corporate debt <sup>(1),(2)</sup>		
	30 Sep 09 <sup>(3)</sup>	31 Mar 10 <sup>(4)</sup>
	\$m	\$m
Accrued interest	4.3	7.5
Less cash on hand	(72.2)	(178.5)
Net Corporate debt (including accrued interest)	871.7	554.8

**Note:**

- 1 Rounding exists in the calculations.
- 2 Includes share of net debt attributable to outside equity interests.
- 3 Excludes \$28.0 million in borrowings and \$15.1 million in cash in respect of the discontinued business of AWB Brasil. These amounts form part of the carrying value of liabilities associated with assets held for sale and assets held for sale, respectively, as per the balance sheet.
- 4 Excludes \$0.6 million in accrued interest and \$3.8 million in cash in respect of the discontinued business of AWB Brasil. These amounts form part of the carrying value of liabilities associated with assets held for sale and assets held for sale, respectively, as per the balance sheet.
- 5 US denominated debt (stated in Australian dollars).

**Source:** AWB Annual and Interim Reports and Presentations and AWB management.

- 285 It should be noted that AWB embarked on a major equity raising in September and October 2009 and settled the sale of LFS in February 2010. The net debt position of AWB prior to those dates is therefore not reflective of the current or long-term future net debt requirements and capital structure of AWB.
- 286 Having regard to the average net corporate debt over the last 12 months (adjusted for the impact of the capital raising and sale of LFS) we have adopted average net debt of \$500 million for valuation purposes. In addition, AWB's share of the average net debt attributable to its investments in associates is some \$50 million.

### Share capital outstanding

- 287 AWB has 817.3 million fully paid ordinary shares on issue. In addition, the company has 7.0 million performance rights outstanding (each convertible to one ordinary share in AWB upon the meeting of stipulated performance hurdles). LEA has assumed that as a result of the transaction the employee performance rights will be converted to ordinary shares. Accordingly, we have assumed fully diluted shares on issue of 824.3 million.

### Valuation summary

- 288 The value of AWB as a standalone entity ranges from \$1.26 per share to \$1.52 per share, calculated as follows:

AWB – valuation summary			
	Paragraph	Low \$m	High \$m
Rural Services	232	715.0	840.0
Grain Marketing	242	275.0	300.0
Logistics and Other Investments	251	234.0	240.0
Pool Management and Harvest Finance	265	99.0	112.0
International Commodity Management	275	388.5	418.0
Corporate overheads	280	(176.0)	(180.0)
Enterprise value <sup>(1)</sup>		1,535.5	1,730.0

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AWB – valuation summary			
	Paragraph	Low \$m	High \$m
Other assets	283	50.0	70.0
Net debt <sup>(2)</sup>	286	(550.0)	(550.0)
Equity value – controlling interest basis		1,035.5	1,250.0
Number of shares on issue (million) <sup>(3)</sup>		824.3	824.3
AWB value per share – controlling interest basis (\$)		\$1.26	\$1.52

**Note:**

- 1 Equity value in the case of Pool Management and Harvest Finance.
- 2 Including AWB's share of the average net debt attributable to its investments in associates.
- 3 Assuming the exercise of performance rights.

**Valuation cross-check – whole of company**

- 289 As a cross-check, LEA has considered the reasonableness of the PE multiples implicit in the equity value calculated above. We have also calculated the inferred PE multiples by dividing the Scheme Consideration of \$1,236 million (824.3 million shares at \$1.50 each) by the net profit attributable to members of AWB (excluding non-recurring items and results of discontinued businesses) but including AWB's share of equity accounted profits.
- 290 Due to AWB's history of earnings volatility (even after excluding non-recurring items and losses of discontinued operations) due in particular to climatic variations, varying harvest volumes, and the adverse impact of the loss of the 'single desk' for wheat, the historic and implied PE multiples are some 19 times after tax earnings<sup>98 99</sup>.
- 291 It should be noted that equity accounted profits represent between some 10% and 20% of AWB's profits, depending on the year. A lower PE multiple is applicable to equity accounted earnings. A lower multiple is also applied to prospective earnings than to historic earnings.
- 292 The Scheme Consideration of \$1.50 per share represents a prospective PE multiple of 14.6 times estimated FY11 net profit after tax. This estimate is based on consensus broker FY11 EBIT forecasts less interest based on FY10 year end and forecast debt calculated as follows:

AWB – implied earnings per share FY11	
	\$m
Consensus EBIT forecast for FY11 <sup>(1)</sup>	150.0
Less interest <sup>(2), (3)</sup>	(28.0)
Net profit before tax	122.0
Less tax at 28% <sup>(4)</sup>	34.2
Earnings attributable to outside equity interests <sup>(5)</sup>	(3.0)
Net profit after tax attributable to members of AWB	84.8
Divided by 824.3 million shares equals earnings per share (¢)	10.3

<sup>98</sup> Excluding non-recurring items and assuming normal tax rates apply.

<sup>99</sup> Excluding the benefit of tax losses from non-recurring items and discontinued businesses.



**Note:**

- 1 This figure is based on estimates from nine brokers. Analysts generally include AWB's share of after tax earnings from associates and Harvest Finance's net interest income within what is described as EBIT.
- 2 US\$250 million debt at 3%, balance<sup>(5)</sup> at 7.5%, and net of interest saved on profits generated in FY11. Net interest expense for FY10 benefited from the significant cash-on-hand from the LFS business and the 2009 rights issue. These cash benefits will not recur in FY11 to the same extent as LFS has been sold.
- 3 Excluding pass-through debt for Harvest Finance's loan receivables.
- 4 The blended effective tax rate is based on a 30% statutory rate for Australian corporate earnings, and allowing for the tax paid on AWB's share of earnings from associates and the lower rate of tax on earnings generated by AWB Geneva.
- 5 After tax.

293 The implied prospective PE multiple based on FY11 estimated earnings are as follows:

Implied PE multiples	
	PE multiple
Scheme Consideration – \$1.50 per share <sup>(1)</sup>	14.6
Assessed value – \$1.52 per share (high)	14.8
Assessed value – \$1.26 per share (low)	12.2

**Note:**

- 1 Subject to ATO approval, the Deed allows AWB to pay a dividend of up to 20 cents per share. If a dividend is paid, the Scheme Consideration of \$1.50 per share will be reduced by a corresponding amount. Due to the benefit of Australian franking credits (of up to 8.6 cents per share) attached to the dividend, the value of the Scheme Consideration to some Australian resident shareholders in AWB may be greater than \$1.50 per share (on a pre-tax basis).

294 In our view the Scheme Consideration of \$1.50 per AWB share reflects a high prospective PE multiple<sup>100</sup>, particularly given the volatility of AWB earnings, the significant proportion of profits generated from "trading" profits, the low tax rate applicable to AWB Geneva's earnings and the proportion of earnings<sup>101</sup> derived from AWB's associates.

<sup>100</sup> By way of comparison, the FY11 prospective multiples of Australian listed companies set out at Appendix C range from 7.5 to 22.5, with a median of 10.8 times earnings after tax, and from 8.0 to 22.8 with a median of 11.6 times earnings after tax for international listed companies. Further, the implied forecast multiples paid in the takeovers set out at Appendix D range from 10.0 to 17.3 times earnings before interest and tax.

<sup>101</sup> Prior to repatriation back to Australia.

## VII Evaluation of the Scheme

### Summary of opinion

295 In our opinion, the Scheme is fair and reasonable and is in the best interests of AWB shareholders in the absence of a superior proposal. We have formed this opinion for the following reasons.

### Assessment of the Scheme

#### Fairness

296 Pursuant to RG 111 the Scheme is “fair” if the value of the Scheme Consideration is equal to or greater than the value of the securities the subject of the Scheme. This comparison is shown below:

Comparison of Scheme Consideration to value of AWB			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Scheme Consideration <sup>(1),(2)</sup>	1.50	1.50	1.50
Value of 100% of shares in AWB	1.26	1.52	1.39
Extent to which the Scheme Consideration exceeds (or is less than) the value of the shares in AWB	0.24	(0.02)	0.11

#### Note:

- 1 Subject to ATO approval, the Deed allows AWB to pay a dividend of up to 20 cents per share. If a dividend is paid, the Scheme Consideration of \$1.50 per share will be reduced by a corresponding amount.
- 2 Due to the benefit of Australian franking credits (of up to 8.6 cents per share) attached to the dividend, the value of the Scheme Consideration to some Australian resident shareholders in AWB may be greater than \$1.50 per share (on a pre-tax basis).

297 As the Scheme Consideration is at the upper end of our assessed valuation range for AWB on a 100% controlling interest basis, in our opinion, the Scheme Consideration is “fair” when assessed based on the guidelines set out in RG 111.

#### Other qualitative factors

298 Pursuant to RG 111, the Scheme is “reasonable” if it is “fair”. Further, in our opinion, if the Scheme is “fair and reasonable” it must also be “in the best interests” of shareholders.

299 Consequently, in our opinion, the Scheme is also “reasonable” and “in the best interests” of AWB shareholders in the absence of a superior proposal.

300 In assessing whether the Scheme is reasonable and in the best interests of AWB shareholders, we have also considered:

- (a) the extent to which a control premium is being paid to AWB shareholders
- (b) the extent to which AWB shareholders are being paid a share of any synergies likely to be generated pursuant to the proposed transaction
- (c) the listed market price of the shares in AWB, both prior to and subsequent to the announcement of the proposed Scheme

- (d) the value of AWB to an alternative offeror and the likelihood of a higher alternative offer being made for AWB prior to the date of the Scheme meeting
- (e) the likely market price of AWB shares if the proposed Scheme is not approved
- (f) the advantages and disadvantages of the Scheme from the perspective of AWB shareholders
- (g) other qualitative and strategic issues associated with the Scheme.

301 These issues are discussed in detail below.

**The extent to which a control premium is being paid**

302 Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do
- (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

303 We have calculated the premium implied by the Scheme Consideration by reference to the market prices of AWB shares (as traded on the ASX) for periods up to and including 29 July 2010. On 30 July 2010, AWB announced (the now withdrawn) proposal under which GrainCorp and AWB were to merge under a scheme of arrangement between AWB and its shareholders, with AWB shareholders receiving one GrainCorp share for every 5.75 AWB shares held.

304 The implied offer premium relative to AWB share prices prior to 30 July 2010 (being the announcement date of the now withdrawn GrainCorp merger proposal) is shown below:

Implied offer premium relative to recent AWB share prices		
	AWB share price \$	Implied offer premium %
Scheme Consideration	1.50	
<b>Closing share price on:</b>		
29 July 2010 (the last trading day prior to the GrainCorp merger announcement)	0.955	57.1
29 June 2010 (1 month prior to the GrainCorp merger announcement)	0.91	64.8
29 April 2010 (3 months prior to the GrainCorp merger announcement)	1.04	44.2

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**Implied offer premium relative to recent AWB share prices**

	<b>AWB share price \$</b>	<b>Implied offer premium %</b>
<b>VWAP<sup>(1)</sup>:</b>		
1 month to 29 July 2010	0.97	54.6
3 months to 29 July 2010	0.99	51.5

**Note:**

- 1 Volume weighted average price up to and including the last trading day prior to the announcement of the (now withdrawn) GrainCorp / AWB merger proposal.

- 305 The premiums implied by the Scheme Consideration above the listed market prices of AWB shares prior to 30 July 2010 are above the premiums generally paid in successful takeovers.
- 306 Given the high premium implied by the Scheme Consideration, we have also considered whether this reflects abnormally large declines in the market price of AWB shares prior to the announcement of the Scheme.
- 307 In this regard, as shown below, we note that AWB shares fell significantly in early 2009 and have generally traded at around or below \$1.00 per share for most of 2010 (prior to the announcement of the Agrium Proposal):

**AWB – share price history<sup>(1)</sup>  
1 July 2006 to 13 August 2010<sup>(2)</sup>**



**Note:**

- 1 Prices have been adjusted for the effects of changes in outstanding share capital, such as equity raisings and the exercise of options.
- 2 13 August 2010 being the last trading day of AWB shares prior to the announcement of the Agrium Proposal.

**Source:** Bloomberg.

- 308 The AWB share price weakness has prevailed for a prolonged period of over 1.5 years reflecting fundamental changes in the operations of AWB, including loss of the 'single desk' wheat export monopoly in 2008, the significant losses incurred by AWB in FY09 (\$200 million) and the six months ended March 2009 (\$52 million) and the large equity raising (\$459 million) which occurred at an issue price of \$1.00 per share (September and October 2009). Having considered all these factors, we have concluded that the Scheme Consideration reflects an offer premium which is well above the average premiums paid in successful takeovers generally.
- 309 In LEA's opinion, AWB shareholders are therefore being compensated for the fact that control of AWB will pass to Agrium if the Scheme is approved.

**Extent to which AWB shareholders are being paid a share of synergies**

- 310 Agrium have publically stated that they hope to generate synergies of A\$40 million or more on an annual basis<sup>102</sup>.
- 311 LEA understands that Agrium has no material operations in Australia. Accordingly, the synergies associated with the Scheme are likely to be initially confined to cost savings resulting from AWB no longer being a publicly listed company with a large number of shareholders, with subsequent benefits to Agrium developing over the short-to-medium term by way of enhanced sales opportunities for fertiliser related products and potential business restructuring. We note that the successful realisation of longer-term synergy benefits is subject to various risks (e.g. implementation risk, macro-economic risk, market response / competition risk, etc).
- 312 Given:
- (a) the very significant premium that the proposed Scheme Consideration represents relative to AWB's share price (immediately prior to the announcement of the now withdrawn GrainCorp merger proposal)
  - (b) that the Scheme Consideration is at the top end of our valuation range
- it is our view that AWB shareholders are receiving a significant share of the synergy benefits likely to be generated by an acquirer.

**Recent share prices subsequent to the announcement of the Scheme**

- 313 Shareholders should note that AWB shares have traded on the ASX in the range of \$1.41 to \$1.49 per share since the Scheme was announced. The volume weighted average price (VWAP) for the period<sup>103</sup> was \$1.45 per share, and on 10 September 2010, AWB shares last traded at \$1.46 per share. These share prices are marginally lower than the Scheme Consideration and suggest that the market consensus view is that the Scheme is likely to be successful and that an alternative superior proposal is unlikely.

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<sup>102</sup> Source: Agrium announcement, 24 August 2010. LEA notes that this estimate is Agrium's estimate of revenue and cost synergies achievable, as AWB's FY10 estimate of corporate overheads are only \$27 million.

<sup>103</sup> 16 August 2010 to 10 September 2010 (inclusive).



#### **Likelihood of an alternative offer**

- 314 We have been advised by the Directors of AWB that no formal or indicative alternative higher offers have been received subsequent to the announcement of the Scheme on 16 August 2010.
- 315 In our opinion, it is unlikely that a higher offer or superior proposal will be received prior to the date of the Scheme meeting. This is because the Scheme Consideration:
- (a) is at the upper end of our assessed range of values for AWB on a 100% controlling interest basis
  - (b) implies an offer premium which is significantly above the average premiums paid in successful takeovers in Australia generally.
- 316 Further, we note that GrainCorp has announced that it will not be submitting a higher offer for AWB shares even though it estimated that its (now withdrawn) proposed merger with AWB was expected to generate annual cost efficiency synergies in excess of \$40 million within two years).

#### **Likely price of AWB shares if the Scheme is not approved**

- 317 If the Scheme is not approved by AWB shareholders and the Court and no higher offer or alternative proposal emerges, we expect that, at least in the short-term, AWB shares will trade at a very significant discount to our valuation and the Scheme Consideration (consistent with the difference between the value of AWB on a portfolio basis and the value on a 100% controlling interest basis).
- 318 If the Scheme is not implemented, those AWB shareholders who wish to sell their AWB shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than would be payable under the Scheme.

#### **Value of franking credits**

- 319 Subject to ATO approval, 20 cents of the \$1.50 cash consideration may be paid to AWB shareholders in the form of a fully franked dividend. The franking credit attached to this dividend is some 8.6 cents per share (or some \$70 million in total).
- 320 Some Australian resident shareholders will therefore receive a further benefit of up to 8.6 cents per share over and above the stated Scheme Consideration.
- 321 However, other Australian resident shareholders, for example those paying the maximum personal income tax rate, may receive less than \$1.50 net of tax if their marginal tax rate exceeds the imputation credit which is calculated at a 30% rate.
- 322 As each shareholder's tax situation is likely to be different (e.g. due to different tax cost base, etc.) shareholders in doubt as to the individual tax consequences of the Scheme should discuss the matter with their tax adviser.



- 323 In our view, the proposed dividend element of the \$1.50 cash consideration enables those shareholders able to benefit from the franking credit to do so. Those shareholders who may suffer a tax detriment after considering the tax effect of both the franking credit and the capital gains tax consequences may need to consider selling their AWB shares on market if this produces a better after tax result.
- 324 On balance, we consider that the net tax consequence of the proposed dividend component of the cash consideration are not sufficiently material to alter our view that the Scheme is fair and reasonable and is in the best interests of AWB shareholders in the absence of a superior proposal.

### Summary of our opinion of the Scheme

- 325 We summarise below the likely advantages and disadvantages for AWB shareholders if the Scheme proceeds.

#### Advantages

- 326 The Scheme has the following benefits to AWB shareholders:

- (a) the Scheme Consideration of \$1.50<sup>104</sup> per share is at the top end of our assessed value range for 100% of AWB of \$1.26 to \$1.52 per share on a 100% controlling interest basis, and is therefore fair and reasonable and in the best interests of AWB shareholders when assessed under the guidelines set out in ASIC RG 111
- (b) the Scheme Consideration represents a significant premium to the recent stock market prices of AWB shares prior to the announcement on 30 July 2010 of the now withdrawn proposed merger (of equals) between AWB and GrainCorp, and the announcement on 16 August 2010 of the initial approach by Agrium
- (c) the premium exceeds observed premiums generally paid to target company shareholders in successful takeovers
- (d) if the Scheme does not proceed, and in the absence of an alternative offer or proposal, the price of AWB shares is likely to trade at a significant discount to our valuation and the Scheme Consideration (consistent with the portfolio nature of individual shareholdings).

#### Disadvantages

- 327 The proposed Scheme Consideration of \$1.50 will not be paid to AWB shareholders until after the Scheme is approved which is not expected to occur until early December 2010.
- 328 AWB shareholders should note that if the Scheme is approved they will no longer hold an interest in AWB. AWB shareholders will therefore not participate in any future value created by the company as a result of on-going operations over and above that reflected in the Scheme Consideration.

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<sup>104</sup> Comprising both dividend and share consideration.



329 In particular, based on information reviewed for the purpose of this report, AWB may achieve improvements in profitability in future years<sup>105</sup>. However, our valuation of AWB confirms that the current value of this future earnings potential is reflected in the Scheme Consideration.

**Conclusion**

330 Given the above analysis, we consider the acquisition of AWB shares by Agrium under the Scheme is fair and reasonable and in the best interests of AWB shareholders in the absence of a superior proposal.

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<sup>105</sup> This information relates to AWB's future operating plans and strategy and accordingly is commercially sensitive by its nature.

## Appendix A

### Financial Services Guide

#### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

#### Financial Services Guide

- 3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to AWB shareholders in connection with the Scheme.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fixed fee of \$480,000 plus GST. This fee also covers the time spend by LEA in assessing the (now superseded) previously proposed merger with GrainCorp.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

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## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27  
363 George Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 independent expert's reports to shareholders.
- 2 This report was prepared by Mr Wayne Lonergan and Mr Craig Edwards who are each authorised representatives of LEA. Mr Lonergan and Mr Edwards have over 40 years and 16 years experience respectively in the provision of valuation advice.

#### Declarations

- 3 This report has been prepared at the request of the Directors of AWB to accompany the Scheme Booklet to be sent to AWB shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Scheme is fair and reasonable and is in the best interests of AWB shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Lonergan nor Mr Edwards have any interest in the outcome of the Scheme. With the exception of the fixed fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with AWB or Agrium prior to the preparation of this report.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, AWB agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of AWB which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Scheme Booklet.

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## Appendix C

### Listed company multiples

- 1 Given the diversity of AWB's operations, there are limited directly "comparable" stock exchange listed companies, both in Australia and internationally, that possess the same or similar mix of businesses. We have therefore had regard to medium to large size agribusinesses that provide rural services and/or commodity management in both the Australian and global agribusiness markets.
- 2 When assessing the company multiples we have considered the drivers and volatility in earnings and cash flows, including:
  - (a) the natural environment and the impact of adverse changes in weather conditions, including drought, excessive rain and other natural disasters
  - (b) the inelastic demand for food staples and related infrastructure needs and support services. The demand for staples is not impacted by discretionary spending levels but is derived primarily from the growing global demand for food
  - (c) the globalised nature of trading in grain commodities has created an efficient market which has resulted in increased competition
  - (d) although many agribusiness companies operate in primarily one base country, the products in which they deal are commodity products that are marketed internationally.
- 3 The EBIT and PE multiples for "comparable" companies and a brief description of those companies are set out below:



90



## Appendix C

### Note:

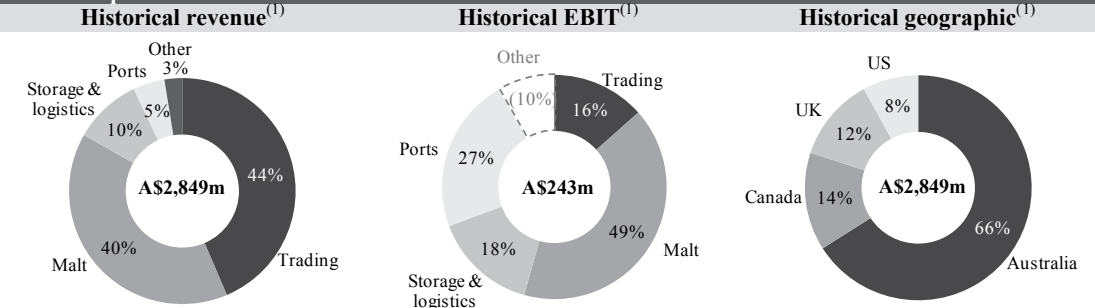
- 1 Enterprise values and multiples calculated as at 8 September 2010. Foreign denominations are translated to Australian dollars as at 8 September 2010.
- 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buy-backs and excludes surplus assets.
- 3 Gearing equals net debt (cash adjusted for the effect of share placements and buy-backs and option dilution) divided by enterprise value.
- 4 FY10 multiples are based on historical results where available and otherwise consensus forecasts. Forecast earnings are based on Bloomberg broker average forecasts as at 8 September 2010 (excluding outliers and outdated forecasts).
- 5 Based upon share market trading immediately prior to the announcement of the (now withdrawn) GrainCorp / AWB merger proposal.

**Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.  
n/a - not available. n/m - not meaningful.

## Appendix C

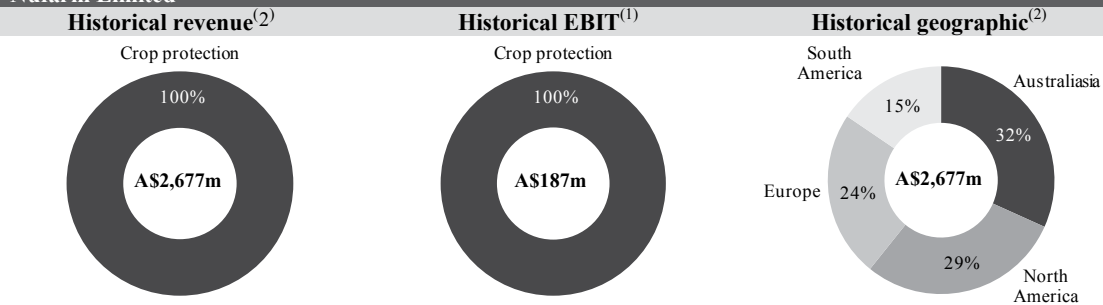
### Australasian companies

#### GrainCorp Limited



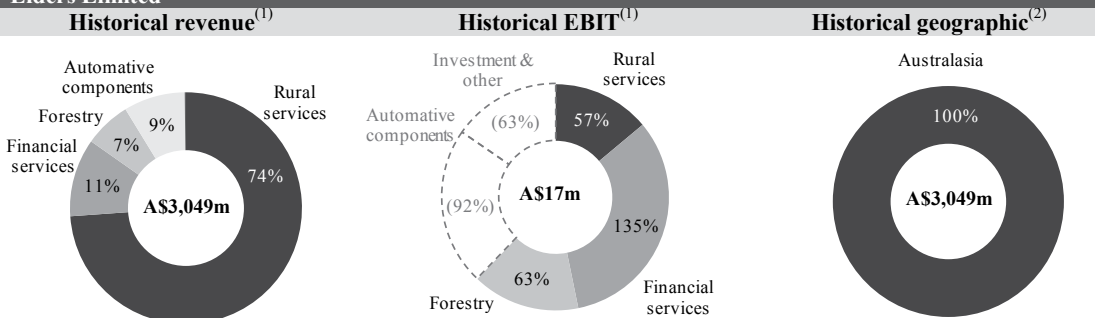
GrainCorp is currently the largest provider of grain storage, logistics and port elevation services in the eastern states of Australia and the world's fourth largest commercial malt producer. Its business consists of storage and handling of grain and bulk commodities, grain and protein meal supply, flour milling, malt production and sale of farm inputs. In November 2009 GrainCorp acquired United Malt Holdings Group (UMH). Revenue and EBIT is based on the calculated revenues and EBIT of GrainCorp and UMH for the financial year ended 30 June 2009.

#### Nufarm Limited



Nufarm is one of the leading global crop protection companies involved in the manufacture, marketing and sale of branded, off-patent crop protection products such as herbicides, fungicides and pesticides. Its products protect crops against damage caused by weeds, pests and disease. The company has production and marketing operations in Australia, New Zealand, Asia, Europe and the Americas and sells its products in more than 100 countries.

#### Elders Limited



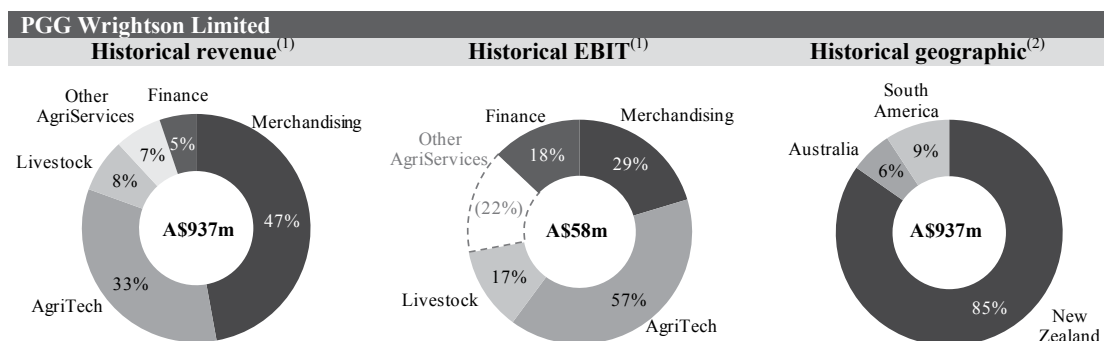
Elders, formerly Futuris Corporation, is engaged in the provision of services and inputs to the rural sector and regional customers. It provides a range of agricultural products as well as dairy, cropping, horticulture and sheep and cattle services. The company is one of Australia's largest suppliers of cropping inputs and services, as well as the largest Australian cattle exporter. Elders also provides banking, insurance and wealth management services, as well as a real estate offering for residential, rural and commercial properties through a network of over 400 offices around Australia.

<sup>1</sup> Geographic segments are categorised by revenue.

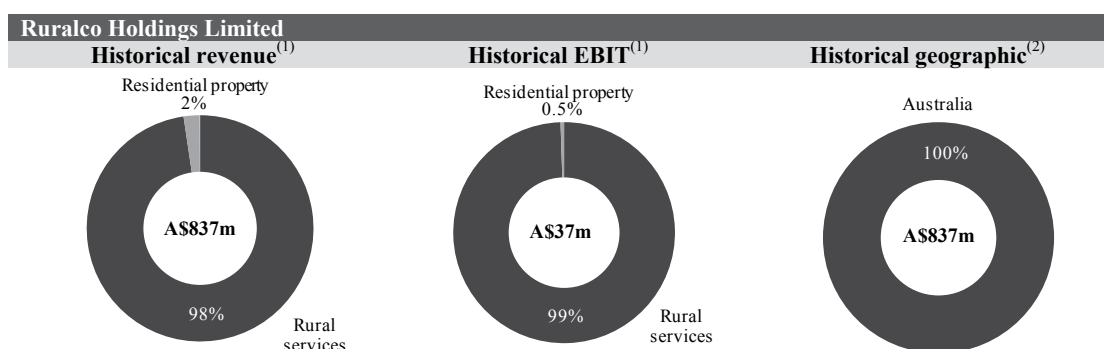
<sup>2</sup> Revenue and earnings excludes intersegment revenue and earnings and corporate costs. Historical revenue and earnings is based on latest full year financial segmental information. Foreign denominations are translated to \$A as at the date of the latest full year statutory accounts.

# LONERGAN EDWARDS & ASSOCIATES LIMITED

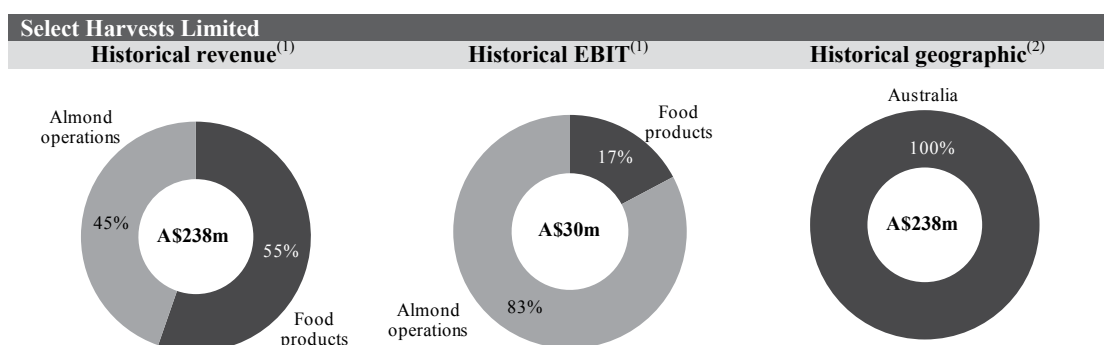
## Appendix C



PGG Wrightson is a New Zealand company that provides rural services and solutions to growers, farmers and processors. The company operates in five operating divisions, including merchandising (rural supplies and fruitfeed retail operations), livestock (trading activities and exporting), finance (specialist rural loan and investment products), AgriTech (research and development, manufacturing, distribution and consulting) and Agriservices (insurance, real estate, irrigation and pumping and funds management services).



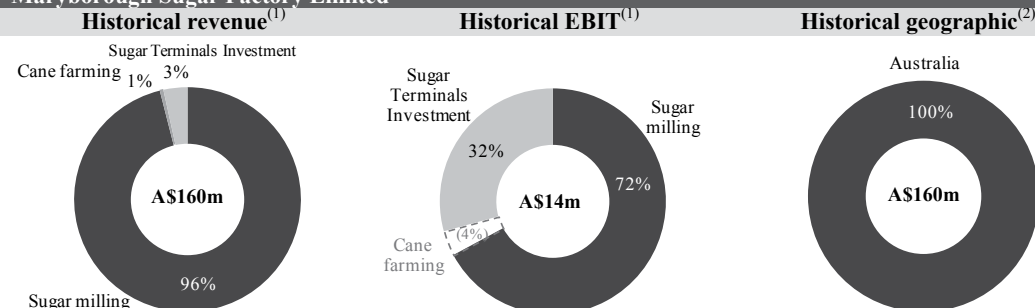
Ruralco provides rural merchandise, stock feed and grain storage, handling and distribution, wool and livestock agency, real estate agency, fertiliser manufacturing and financial services. The company supplies a range of farm inputs including crop protection, irrigation and fertiliser products as well as providing grain storage operations in Tasmania. Real estate services include both the rural and residential markets, as well as property management services and financial services offered includes seasonal finance and insurance for primary producers.



Select Harvests, Australia's largest almond grower, manages 60% of Australia's almond orchards, and is one of the largest almond growers globally. It is also Australia's leading manufacturer, processor and marketer of a range of nuts, fruit based, and associated products and exports almonds to several countries in Asia, Europe and the Middle East. The company owns 3,368 acres of almond orchards in Victoria and 4,500 acres in Western Australia and manages over 35,000 acres of almond orchards on a fee for service basis.

## Appendix C

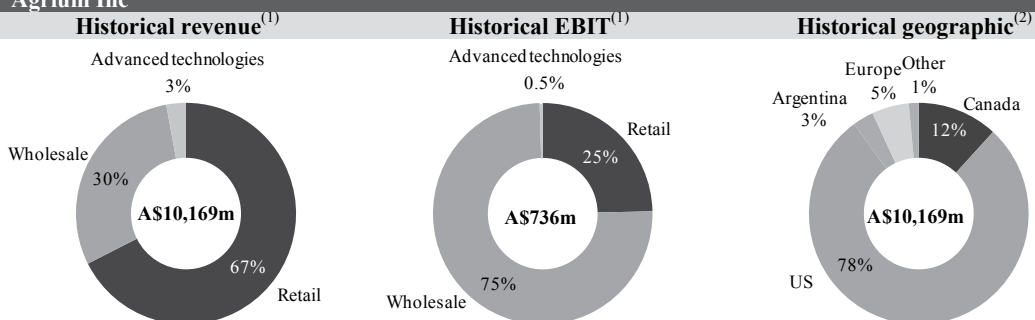
### Maryborough Sugar Factory Limited



Maryborough Sugar Factory grows sugar cane and manufactures raw sugar and sugar cane by-products. The company harvests, transports and processes sugar cane from company operated farms and farms operated under lease arrangements. The company also has investments in agricultural property and water rights to support its cane growing activities. The property portfolio in Australia consists of almost 6,000 hectares in North Queensland, primarily in the Maryborough district.

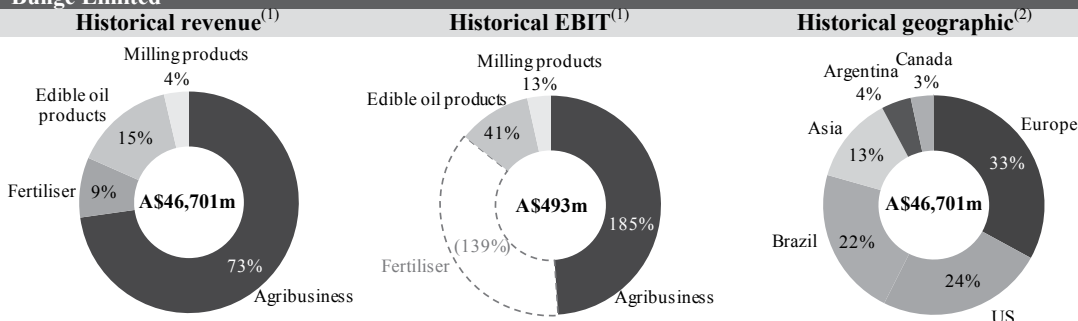
### International companies

#### Agrium Inc



Agrium is a major supplier of agricultural products and services in North and South America and a leading global producer and marketer of agricultural nutrients and industrial products. The company operates through three units. Its retail unit focuses on crop nutrient and protection and seed products, with some 826 retail centres, 37 terminals and 18 distribution centres. The wholesale division produces and distributes crop nutrients globally, while the advanced technologies unit produces and markets innovative nutrient related products.

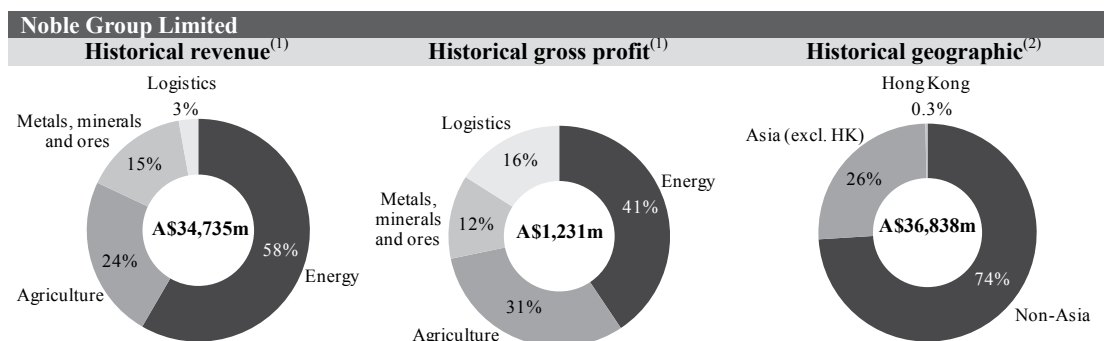
#### Bunge Limited



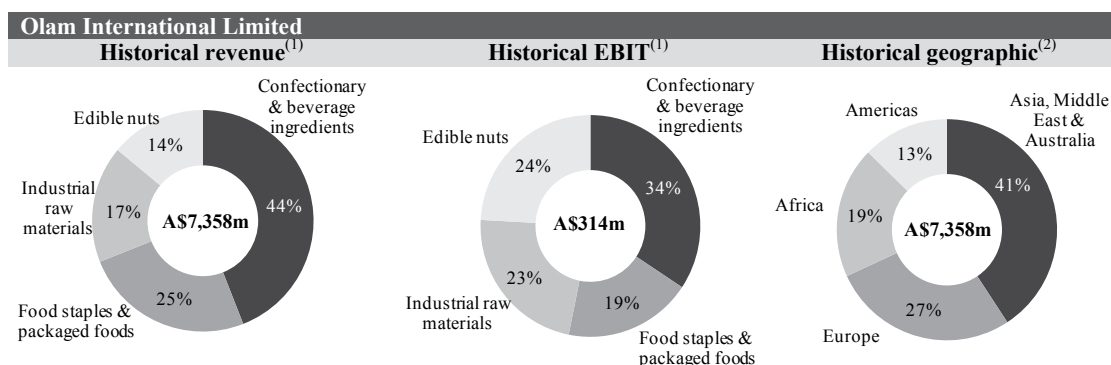
Bunge is a global agribusiness and food company operating in the farm-to-consumer food chain. The company operates through three primary divisions. Its agribusiness division is an integrated business principally involved in the purchase, storage, transport, processing and sale of agricultural commodities worldwide. The fertilizer division mines phosphate-based raw materials and sells fertilizer products. Its food and ingredients division produces and sells edible oil products worldwide and also mills wheat and corn for food processors.

# LONERGAN EDWARDS & ASSOCIATES LIMITED

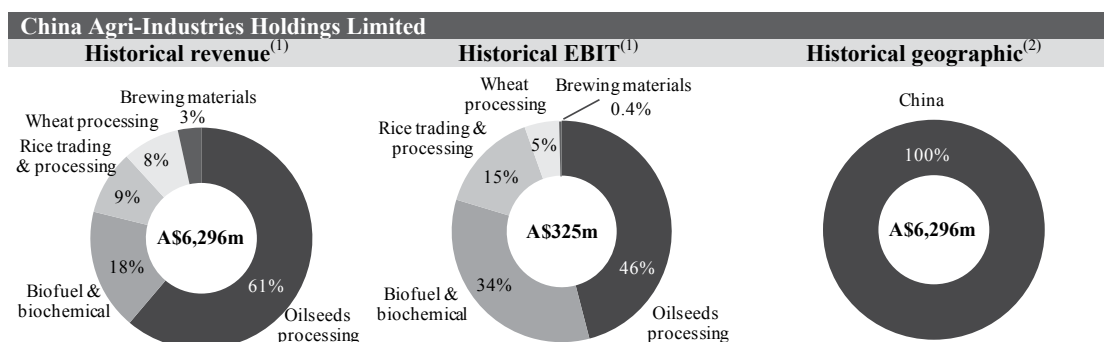
## Appendix C



Noble Group specialises in the origination and delivery of strategic raw materials and commodities, including agricultural, mineral and energy products. Agricultural activities includes the planting, growing and harvesting, as well as sourcing and originating, warehousing, processing, transporting, distributing and marketing of various products, including grain, coffee, cocoa, cotton, sugar and fertilizer products. The company also operates in coal and coke, oil and asgas, petrochemical, carbon credits, iron ore, alloys, aluminium and steel products as well as vessel ownership, chartering and management. Noble Group reports revenue by geographic segment including intersegment revenue of some A\$2,103 million.



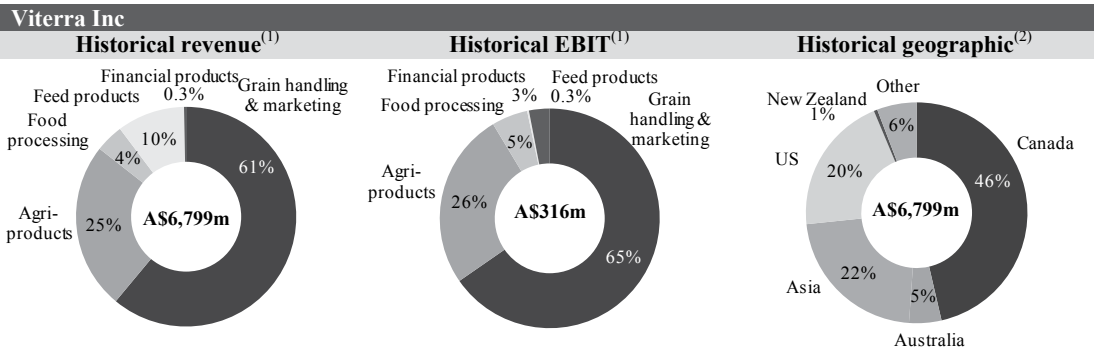
Olam is a global integrated supply chain manager and processor of agricultural products and food ingredients. The company operates an integrated supply chain for 20 products in 64 countries. The primary product categories the company operates in are edible nuts, spices and beans, confectionary and beverage ingredients, industrial raw materials, including cotton and wool and food staples and packaged foods, including wheat, barley and sugar.



China Agri-Industries is engaged in oilseed processing, brewing material production, rice trading and processing, wheat processing, and biofuel and biochemical production. Its operations and production facilities are located in China and the majority of products are marketed and sold in the Chinese market. The company is China's largest exporter of rice and one of China's largest wheat and oilseed processors.

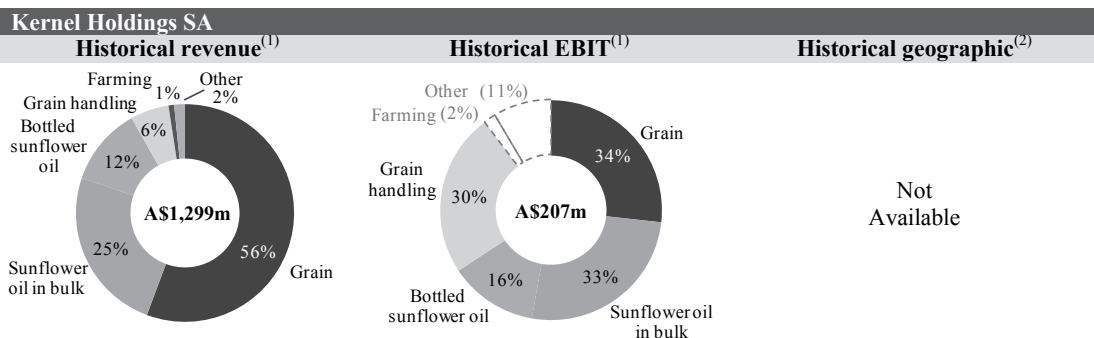


## Appendix C

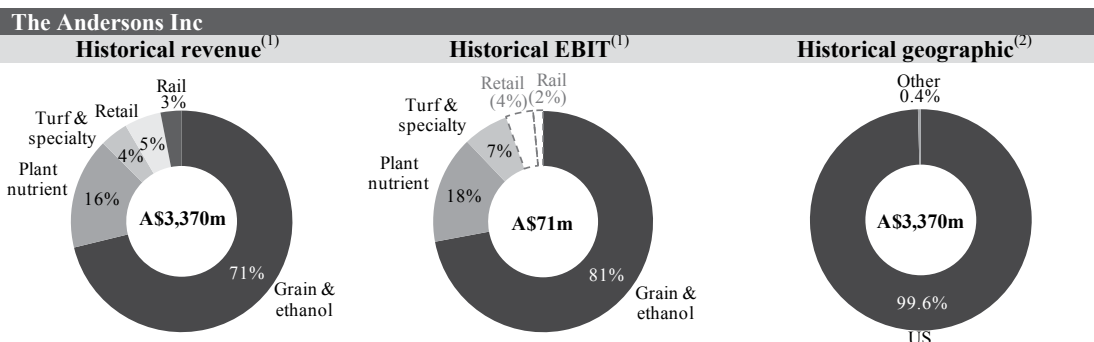


Headquartered in Canada, Viterra is a global agribusiness with extensive operations in Western Canada, Australia and New Zealand. The company provides grain handling services, such as warehousing and marketing, fertiliser manufacturing and distribution as well as raw material processing into livestock feed, ingredients and nutritional supplements. The company also provides sales and related services for crop inputs and equipment and financial products such as credit programs to support farm cash flow requirements.

In September 2009, Viterra acquired ABB Grain, Australia's largest barley exporter and second largest exporter of wheat. The acquisition added 111 storage facilities, seven export terminals and eight silos in Australia, as well as operations in New Zealand focused on the trading and distribution of grains and proteins.



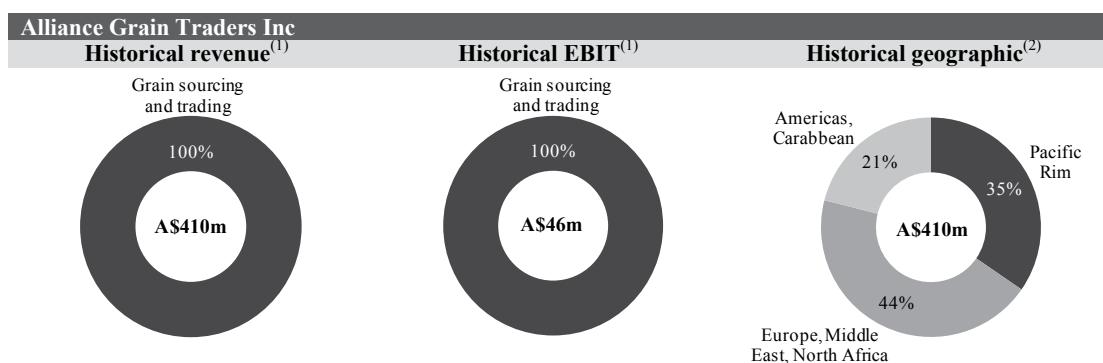
Kernel Holding is Ukraine's largest agricultural company. The company is engaged in bulk grain freight handling services, grain and oil crop storage and agricultural production. Kernel Holding also exports a range of cereals, including wheat, barley, soya beans, rapeseed, corn and peas, as well as vegetable oils. The company operates three oilseed crushing plants, two oil refining and bottling facilities, 25 grain silos and leases 84,500 hectares of agricultural land.



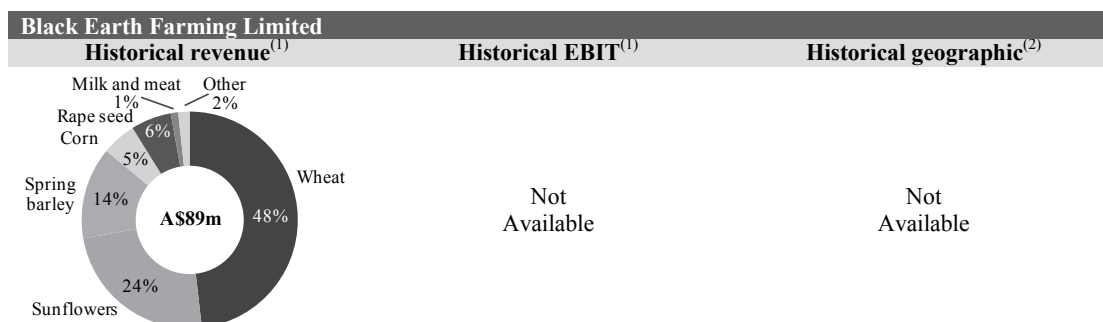
The Andersons is a US-based company with interests in the agriculture and transportation industries. The company operates in five business segments including, grain and ethanol (grain storage and trading and merchandising), rail (fleet management services, trading, leasing and repairing used railcars and equipment), plant nutrients (formulation and production, storage and marketing of fertiliser), turf and specialty (granular fertiliser products for professional lawn care) and retail (The Andersons stores for home renovating and maintenance).

**LONERGAN EDWARDS  
& ASSOCIATES LIMITED**

**Appendix C**



Alliance Grain Traders is the largest lentil and pea splitting company in the world. The company sources a range of specialty crops including lentils, peas, beans and chickpeas from farmers in Canada, the United States, Turkey and Australia and ships them to over 85 countries around the globe. Alliance Grain Traders owns twelve processing plants in Canada, one in the United States and one in Australia. The company also has wheat and rice milling operations in Turkey.



Black Earth Farming is a Russia-based company which acquires and develops agricultural land assets. The company's primary activities are on-field production, pre-harvest and post-harvest logistics and the handling of various agricultural products. Black Earth Farming is also involved in dairy and meat farming, which is conducted on a small scale, and is also engaged in land acquisition and registration.

## Appendix D

### Transaction multiples

- 1 There have been a number of transactions involving businesses operating in the Australian and global agribusiness markets. The implied multiples from these transactions, and a brief description of the target company's activities at the date of the acquisition, are set out below:

Summary of transaction multiples					
Date <sup>(1)</sup>	Target	Acquirer	Purchase price <sup>(2)</sup> A\$m	EBIT multiples Historical x	Forecast x
Jul 10	Sucrogen	Wilmar International	1,750	13.5	n/a
Oct 09	UMH	GrainCorp	757	8.0	n/a
May 09	ABB Grain	Viterra Inc	2,224	20.3	17.3 <sup>(3)(4)</sup>
Dec 07	UAP Holdings	Agrium Inc	2,990	n/a	n/a
Oct 07	Mulgrave Central Mills	Maryborough Sugar Factory	54	n/a	n/a
May 07	Agricore United	Saskatchewan Wheat Pool Inc.	2,010	16.3	n/a
Mar 07	Queensland Cotton Hldgs	Olam International	279	23.1	10.0 <sup>(5)</sup>
Dec 05	Roberts	Ruralco Holdings	181	11.0	11.5 <sup>(4)</sup>
Nov 05	Royster Clark ULC	Agrium	702	n/a	n/a
Jul 05	Wrightson	Pine Gould Guinness	415	18.9	10.3
May 04	Ausbulk	ABB Grain	689	20.9	13.8
Aug 03	Landmark	AWB	825	15.3	11.4
Feb 03	Grainco Australia	GrainCorp	245	26.8	n/a

**Note:**

- 1 Date of the announcement.
- 2 Enterprise value. Foreign denominations are translated to Australian dollars as at the date of the announcement.
- 3 Multiple for ABB Grain is 11.3 times for the second forecast year. In our view, this is more reflective of a multiple based upon maintainable earnings than the 17.3 times forecast multiple for the forecast year.
- 4 Multiple includes an estimation of depreciation based upon historic experience.
- 5 Queensland Cotton Holdings forecast is based on average seasonal conditions as per the IER prepared for the transaction.

**Source:** LEA analysis using data from ASX announcements, analyst reports and company annual reports.  
n/a – not available.

### Sucrogen

- 2 On 5 July 2010 CSR Limited agreed to sell its Sucrogen business to Wilmar International Limited. Sucrogen was a wholly owned subsidiary of CSR Limited, operating as CSR's sugar business. The subsidiary is the largest producer of raw sugar in Australia, accounting for some 40% of Australia's raw sugar. In addition, it owns a 74% interest in joint ventures which are the leading refined sugar companies in Australia and New Zealand. Other activities include distilling and marketing ethanol, solvents and specialty chemicals and electricity co-generation.

**LONERGAN EDWARDS**  
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## **Appendix D**

### **United Malt Holdings Group (UMH)**

- 3 UMH consists of the Canada Malting Company, Great Western Malting, Bairds Malt and Barrett Burston Malting, which operate in Canada, the United States, the United Kingdom and Australia, respectively. Prior to being acquired by GrainCorp in November 2009, UMH was the world's fourth largest commercial malt producer, supplying malt for the use in the production of beer and whisky to the world's largest brewers and distillers. The group operated 14 malt houses located in, or with good access to, the world's primary barley growing and trading regions.

### **ABB Grain Limited**

- 4 ABB Grain's primary business was the provision of storage, processing, logistic, marketing and trading services in agricultural commodities along an integrated supply chain. The company accumulated grains such as barley, wheat, sorghum, canola, oats and maize from all the grain growing regions in Australia and New Zealand and exported these to some 40 countries. ABB Grain owned 111 silos and seven export shipping terminals. The malting division operated the largest maltings network in Australia, producing over 500,000 tonnes of malt annually, principally for export destinations.

### **UAP Holding Corp.**

- 5 UAP Holding was the largest independent distributor of agricultural and non-crop products in the United States and Canada at the date of the acquisition. The company marketed a comprehensive line of products, including chemicals, fertilizer, and seed to farmers, commercial growers, and regional dealers. It also provided value-added services, including crop management, biotechnology advisory services, custom fertilizer blending, seed treatment, inventory management, and custom applications of crop inputs. UAP Holding maintained a network of approximately 370 distribution and storage facilities and three formulation plants, located in major crop-producing areas in the United States and Canada.

### **Mulgrave Central Mills**

- 6 Mulgrave Central Mills was engaged in the milling of sugar cane and manufacture of raw sugar and molasses. The company was originally founded as a growers' co-operative, later transforming into a company with the majority of shareholders being cane-suppliers. Prior to acquisition by Maryborough Sugar Factory, Mulgrave Central Mills was also a significant shareholder in Sugar Terminal Limited.

### **Agricore United**

- 7 Agricore was a Canada-based agri-business, with smaller operations in the US and Japan. The company was primarily involved in sourcing grain from producers for delivery to end users. It also provided crop production services, which involved the sale of crop input products as well as livestock services, which included the manufacture and sale of livestock feed and related services.

## Appendix D

### Queensland Cotton Holdings Limited

- 8 Queensland Cotton was one of Australia's largest and oldest cotton companies with extensive operations in Australia, the US and Brazil. The company was primarily involved in the production, processing and marketing of cotton and also provided crop financing, merchandising of cotton planting seeds, fertilisers and chemicals, raw cotton handling and transport, and cotton ginning. Queensland Cotton operated 11 gins throughout Queensland and New South Wales in Australia and 12 cotton gins in California and Arizona in the US.

### Roberts Limited

- 9 Roberts was an Australia-based company operating as an auctioneer and general merchant. The company was involved in farm merchandise, including farm advice and services covering such areas as nutrition, animal health, fertilisers, fencing and crop care. Roberts' other operations included wool broking, livestock agency and rural finance. The company also had smaller interests in real estate agency, farm machinery distribution, wool buying and exporting and sub-divisional development.

### Royster Clark ULC

- 10 Royster Clark was a major retail distributor of agricultural nutrients, seed and crop protection products and provider of agronomic services to US growers. Royster Clark operated over 250 farm centres throughout the Mid-western and South-eastern US. It operated more than 30 facilities including seed processing and fertilizer granulation and blending plants. Royster Clark also operated more than 70 storage and distribution terminals and warehouses and managed approximately one million tonnes of total fertilizer storage capacity.

### Wrightson Limited

- 11 Wrightson was a New Zealand-based agricultural service provider offering a range of products and services through its some 80 stores. The company was involved in rural merchandising, farm consultancy and financing, real estate and insurance services, supplying seeds, grains and feed supplements, livestock marketing and wool procurement, warehousing, marketing and exporting. It also provided forestry services on a small scale.

### Ausbulk Limited

- 12 Ausbulk was an Australia-based unlisted public company whose core business was the storage and handling of grain and other bulk commodities. The company was engaged in grain marketing, first stage grain processing, logistics, containerisation, grain quality analytical services and e-commerce. Ausbulk acquired Joe White Maltings and Adelaide Malting, making it a leading malt processing company in Australia. The company's grain handling and storage business had over 100 receival sites and seven grain export terminals, as well as a 50% interest in Melbourne Grain Export Terminal.

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

## Appendix D

### Landmark

- 13 Landmark is a diversified rural services business based in Australia. At the date of acquisition by AWB Limited (August 2003), Landmark was engaged in merchandising of agricultural inputs, fertiliser agency services, provision of seasonal finance, sale of insurance for rural business and households, saleyard auction and private treaty services, wool broking and auction selling services and rural real estate. Landmark was Australia's largest distributor of merchandise and fertiliser products in Australia, with a national distribution network of 430 outlets.

### Grainco Australia Limited

- 14 Grainco was an Australia-based unlisted bulk commodity, logistics and trade facilitation group. The company operated primarily in two business segments, being the handling and storage of grain and non-grain commodities and the sourcing, purchasing and marketing of grain products. The operations were primarily in Australia, however, the trading operation entered into grain sales to both domestic and international customers.



## Appendix E

### Glossary

Term	Meaning
ACM	Australian Commodity Management
Agrium	Agrium Inc
AICH	Australian Independent Commodity Handlers
AIFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AWB	AWB Limited
AWB Brasil	Brazilian and Uruguay businesses
AWB Geneva	AWB Geneva
AWB India	AWB India
AWH	Australian Wool Handlers
CAPM	Capital asset pricing model
CME	Chicago Mercantile Exchange
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCF	Discounted cash flow
Deed	Scheme of Implementation Deed dated 20 August 2010
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
EBT	Earnings before tax
Elders	Elders Limited
ELF	ELF Australia Pty Ltd
f.o.b.	Free on board
FAO	Food and Agriculture Organisation of the United Nations
FIRB	Foreign Investment Review Board
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
Gavilon	Gavilon Group, LLC
GFC	Global financial crisis
GM	Genetically modified
GrainCorp	GrainCorp Limited
GrainFlow	GrainFlow Pty Ltd
Harvest Finance	AWB Harvest Finance
Hi-Fert	ELF the parent of Hi-Fert
ICM	International Commodity Management
IER	Independent expert's report
KCBT	Kansas City Board of Trade
LEA	Loneragan Edwards & Associates Limited
LFS	Landmark Financial Services
LGE	Landmark Global Exports
NPV	Net present value
OEI	Outside equity interests
OFFP	Oil-For-Food Programme
PE	Price earnings

**LONERGAN EDWARDS**  
& ASSOCIATES LIMITED

## Appendix E

Term	Meaning
Proposal	The proposal by Agrium to acquire all the issued capital of AWB for \$1.50 cash per share
PSE	Producer Support Estimate
RBA	Reserve Bank of Australia
RD1	RD1 Ltd
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
RICO	Racketeer Influenced and Corrupt Organisations Act
Scheme	The Scheme of Arrangement under which Agrium would acquire all the issued capital of AWB
Scheme Consideration	\$1.50 cash per share (including dividend component)
SOI	Southern Oscillation Index
UMH	United Malt Holdings Group
UN	United Nations
USDA	United States Department of Agriculture
VWAP	Volume weighted average price
WEA	Wheat Exports Australia
Wesfarmers	Wesfarmers Limited



# Annexure B

## Scheme of Arrangement



## Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

### Between the parties

AWB Limited (ACN 081 890 459) of Level 21, 380 La Trobe Street, Melbourne, Victoria 3000  
(AWB)

Each person registered as a holder of fully paid ordinary shares in AWB in the AWB Share Register as at the Scheme Record Date  
(Scheme Shareholders)

## 1. Definitions and interpretation

### 1.1 DEFINITIONS

The meanings of the terms used in this Scheme are set out below.

Term	Meaning
Agrium	Agrium Inc. of 13131 Lake Fraser Drive S.E. Calgary, Alberta, Canada, T2J 7E8.
Agrium Subsidiary	a subsidiary of Agrium in respect of which Agrium has made an election under the Scheme Implementation Deed that that subsidiary acquire the Scheme Shares under the Scheme.
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ABN (98 008 624 691).
AWB	AWB Limited (ACN 081 890 459).
AWB Registry	Computershare Investor Services Pty Limited (ACN 078 279 277).
AWB Share	a fully paid ordinary share in AWB.
AWB Shareholder	a person who is registered as the holder of an AWB Share.
AWB Share Register	the register of members of AWB maintained in accordance with the Corporations Act.
Business Day	a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne.
CHESS	the clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Court	the Supreme Court of Victoria or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Agrium and AWB.
Deed Poll	the deed poll dated 6 October 2010 executed by Agrium under which Agrium covenants in favour of the Scheme Shareholders to perform its obligations under this Scheme.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Court order made under section 411(4)(b) of the Corporations Act in relation to this Scheme.
Effective Date	the date on which this Scheme becomes Effective.
End Date	31 March 2011.
Implementation Date	two Business Days after the Scheme Record Date, or such other day as AWB and Agrium agree.



Term	Meaning
<b>Permitted Dividend</b>	a fully franked dividend, not exceeding the lesser of: <ul style="list-style-type: none"> <li>• 20 cents per AWB Share; or</li> <li>• the maximum amount per AWB Share which can be fully franked,</li> </ul> in respect of which a tax ruling or draft tax ruling in a form acceptable to AWB and Agrium (acting reasonably) is given by the Australian Taxation Office with the knowledge of the funding arrangement proposed in clause 4.3 of the Scheme Implementation Deed, and which is paid by AWB (in its absolute discretion) after the Effective Date without resulting in AWB being in franking deficit immediately after paying the dividend.
<b>Registered Address</b>	in relation to an AWB Shareholder, the address shown in the AWB Share Register.
<b>Registrar</b>	the person for the time being responsible for the maintenance of the AWB Share Register.
<b>Related Body Corporate</b>	the meaning given in the Corporations Act.
<b>Scheme</b>	this scheme of arrangement subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by AWB and Agrium.
<b>Scheme Consideration</b>	for every AWB Share held by a Scheme Shareholder as at the Scheme Record Date, \$1.50 cash, as reduced by the cash amount of any dividend paid by AWB between the date of this deed and the Implementation Date (subject to the terms of this Scheme).
<b>Scheme Implementation Deed</b>	the scheme implementation deed dated 20 August 2010 between AWB and Agrium relating to the implementation of this Scheme.
<b>Scheme Record Date</b>	5.00pm on the eighth Business Day after the Effective Date.
<b>Scheme Shares</b>	all AWB Shares held by the Scheme Shareholders as at the Scheme Record Date.
<b>Scheme Shareholder</b>	a holder of an AWB Share recorded in the AWB Share Register as at the Scheme Record Date.
<b>Second Court Date</b>	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard.
<b>Share Scheme Transfer</b>	a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.
<b>Trustee</b>	AWB as trustee for the Scheme Shareholders.

## 1.2 INTERPRETATION

In this Scheme:

- headings and bold type are for convenience only and do not affect the interpretation of this Scheme;
- the singular includes the plural and the plural includes the singular;
- words of any gender include all genders;
- other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;
- a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any government agency as well as an individual;
- a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this Scheme;
- a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re enactments of any of them;
- a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;
- the word “includes” in any form is not a word of limitation;
- a reference to ‘\$’, ‘A\$’ or ‘dollar’ is to Australian currency unless denominated otherwise;

- (k) a reference to any time is a reference to that time in Melbourne;
- (l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme;
- (m) a reference to a party to a document includes that party's successors and permitted assignees;
- (n) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision;
- (o) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:
  - (1) which ceases to exist; or
  - (2) whose powers or functions are transferred to another body,
 is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

### 1.3 BUSINESS DAY

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

## 2. Preliminary matters

- (a) AWB is a public company limited by shares, incorporated in Australia and has been admitted to the official list of the ASX.
- (b) As at 7 October 2010:
  - (1) 817,304,356 AWB Shares were on issue which are officially quoted on the ASX; and
  - (2) 6,977,311 executive performance rights on issue which are not quoted on any stock exchange;
- (c) Agrium is a corporation limited by shares, incorporated in Canada.
- (d) If this Scheme becomes Effective:
  - (1) Agrium will pay or procure the payment of the Scheme Consideration in the manner contemplated by clause 5.1(a) and the Deed Poll;
  - (2) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to Agrium or Agrium Subsidiary (as applicable) and AWB will enter the name of Agrium or Agrium Subsidiary (as applicable) in the AWB Share Register in respect of the Scheme Shares; and
  - (3) it will bind AWB and all Scheme Shareholders, including those who do not attend the meeting of AWB Shareholders to vote on this Scheme, those who do not vote at that meeting and those who vote against this Scheme at that meeting.
- (e) AWB and Agrium have agreed, by executing the Scheme Implementation Deed, to implement this Scheme.
- (f) Agrium has agreed, by executing the Deed Poll, to perform its obligations under this Scheme, including the obligation to pay or procure the payment of the Scheme Consideration in the manner contemplated by clause 5.1(a).

## 3. Conditions

### 3.1 CONDITIONS PRECEDENT

This Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) all the conditions in clause 3.1 of the Scheme Implementation Deed (other than the condition in the Scheme Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed by 8.00am on the Second Court Date;
- (b) the Scheme Implementation Deed not having been terminated in accordance with its terms before 8.00am on the Second Court Date;
- (c) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with such alterations made or required by the Court under section 411(6) of the Corporations Act as are acceptable to Agrium and AWB;
- (d) such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme as are acceptable to Agrium and AWB; and
- (e) the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6)) of the Corporations Act approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act.

### 3.2 SATISFACTION

The fulfilment of clause 3.1 is a condition precedent to the operation of provisions of clauses 4.2, 5.1, 5.2, 5.3 and 5.4 of this Scheme.

### 3.3 END DATE

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Scheme Implementation Deed is terminated in accordance with its terms, unless AWB and Agrium otherwise agree in writing.

### 3.4 CERTIFICATE

- (a) AWB and Agrium will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.
- (b) The certificate referred to in clause 3.4(a) constitutes conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.



## 4. Implementation of the Scheme

### 4.1 LODGEMENT OF COURT ORDERS WITH ASIC

AWB will lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Court order approving the Scheme as soon as possible and in any event by 1.00pm on the first Business Day after the day on which the Court approves the Scheme or such later time as AWB and Agrium agree in writing.

### 4.2 TRANSFER OF SCHEME SHARES

On the Implementation Date:

- (a) subject to the payment of the Scheme Consideration in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Agrium or Agrium Subsidiary (as applicable), without the need for any further act by any Scheme Shareholder (other than acts performed by AWB as attorney and agent for Scheme Shareholders under clause 8.5), by:
  - (1) AWB delivering to Agrium or Agrium Subsidiary (as applicable) a duly completed Share Scheme Transfer, executed on behalf of the Scheme Shareholders by AWB, for registration; and
  - (2) Agrium or Agrium Subsidiary (as applicable) duly executing the Share Scheme Transfer, attending to the stamping of the Share Scheme Transfer (if required) and delivering it to AWB for registration; and
- (b) as soon as possible following receipt of the Share Scheme Transfer in accordance with clause 4.2(a)(2), AWB must enter, or procure the entry of, the name and address of Agrium or Agrium Subsidiary (as applicable) in the AWB Share Register in respect of all the Scheme Shares transferred to Agrium or Agrium Subsidiary (as applicable) in accordance with this Scheme.

## 5. Scheme Consideration

### 5.1 PROVISION OF SCHEME CONSIDERATION

- (a) AWB must procure that, by no later than the Business Day before the Implementation Date, an amount at least equal to the aggregate amount of the Scheme Consideration payable to each Scheme Shareholder is deposited in cleared funds by Agrium, in an Australian dollar denominated trust account operated by AWB as trustee for the Scheme Shareholders, provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Agrium's account.
- (b) On the Implementation Date and subject to compliance with clause 5.1(a), AWB must pay or procure the payment of the Scheme Consideration to each Scheme Shareholder from the trust account referred to in clause 5.1(a).
- (c) The obligations of AWB under clause 5.1(b) will be satisfied by the Trustee doing any of the following at its election:
  - (1) dispatching, or procuring the dispatch of, a cheque to each Scheme Shareholder by prepaid post to their Registered Address (as at the Record Date), such cheque being drawn in the name of the Scheme Shareholders (or in the case of joint holders, in accordance with the procedures set out in clause 5.2), for the relevant amount; or

- (2) depositing or procuring the AWB Registry to deposit into an account with any Australian ADI (as defined in the Corporations Act) notified to AWB (or AWB's agent who manages the AWB Register) by an appropriate authority from Scheme Shareholders.

(d) In the event that:

- (1) a Scheme Shareholder does not have a Registered Address; or
- (2) the Trustee believes that a Scheme Shareholder is not known at the Scheme Shareholder's Registered Address,

and no account has been notified in accordance with clause 5.1(c)(2) or a deposit into such an account is rejected or refunded, the Trustee may credit the amount payable to the relevant Scheme Shareholder to a separate bank account of AWB to be held until the Scheme Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation.

AWB must hold the amount on trust for the relevant Scheme Shareholder, but any benefit accruing from the amount will be to the benefit of AWB. An amount credited to the account is to be treated as having been paid to the Scheme Shareholder when credited to the account. AWB must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (e) To the extent that there is a surplus in the amount held by the Trustee in the trust account, that surplus may be paid by the Trustee to Agrium Subsidiary following the satisfaction of the Trustee's obligations under clause 5.1.

### 5.2 JOINT HOLDERS

In the case of Scheme Shares held in joint names, the Scheme Consideration is payable to the joint holders and any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the AWB Share Register as at the Record Date.

### 5.3 UNCLAIMED MONIES

- (a) AWB may cancel a cheque issued under clause 5.1(c) if the cheque:
  - (1) is returned to AWB; or
  - (2) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of one year commencing on the Implementation Date, on request from a Scheme Shareholder, AWB must reissue a cheque that was previously cancelled under this clause.

### 5.4 ORDERS OF A COURT

In the case of written notice having been given to AWB (or the AWB Share Registrar) of an order made by a court of competent jurisdiction:

- (a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder in accordance with clause 5.1(c), then AWB shall be entitled to procure that payment is made in accordance with that order; or
- (b) which would prevent AWB from despatching a cheque to any particular Scheme Shareholder in accordance with clause 5.1(c), AWB shall be entitled to retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with clause 5.1(c) is permitted by that order or otherwise by law.

## 6. Dealings in AWB Shares

### 6.1 DETERMINATION OF SCHEME SHAREHOLDERS

To establish the identity of the Scheme Shareholders, dealings in AWB Shares will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the AWB Share Register as the holder of the relevant AWB Shares on or before the Scheme Record Date; and
- (b) in all other cases, registrable transfer or transmission applications in respect of those dealings are received on or before the Scheme Record Date at the place where the AWB Share Register is kept,

and AWB will not accept for registration, nor recognise for the purpose of establishing the persons who are Scheme Shareholders, any transfer or transmission application in respect of AWB Shares received after such times, or received prior to such times but not in registrable form.

### 6.2 REGISTER

- (a) AWB must register registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) on or before the Scheme Record Date; provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires AWB to register a transfer that would result in a AWB Shareholder holding a parcel of AWB Shares that is less than a 'marketable parcel' (as defined in the Market Rules of the ASX).
- (b) If the Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date.
- (c) For the purpose of determining entitlements to the Scheme Consideration, AWB must maintain the AWB Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The AWB Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) All statements of holding for AWB Shares (other than statements of holding in favour of Agrium) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the AWB Share Register (other than entries on AWB Register in respect of Agrium) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the AWB Shares relating to that entry.
- (e) As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, AWB will ensure that details of the names, Registered Addresses and holdings of AWB Shares for each Scheme Shareholder as shown in the AWB Register are available to Agrium in the form Agrium reasonably requires.

## 7. Quotation of AWB Shares

- (a) AWB will apply to ASX to suspend trading on the ASX in AWB Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Agrium, AWB will apply:
  - (1) for termination of the official quotation of AWB Shares on the ASX; and
  - (2) to have itself removed from the official list of the ASX.

## 8. General Scheme provisions

### 8.1 CONSENT TO AMENDMENTS TO THE SCHEME

If the Court proposes to approve the Scheme subject to any alterations or conditions, AWB may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Agrium has consented.

### 8.2 SCHEME SHAREHOLDERS' AGREEMENTS AND WARRANTIES

- (a) Each Scheme Shareholder:
  - (1) agrees to the transfer of their AWB Shares together with all rights and entitlements attaching to those AWB Shares in accordance with the Scheme and agrees to the variation, cancellation or modification of the rights attached to their AWB Shares constituted by or resulting from the Scheme; and
  - (2) acknowledges that the Scheme binds all Scheme Shareholders.
- (b) Each Scheme Shareholder is taken to have warranted to AWB and Agrium, and appointed and authorised AWB as its attorney and agent to warrant to Agrium, that all their AWB Shares (including any rights and entitlements attaching to those shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to sell and to transfer their AWB Shares to Agrium or Agrium Subsidiary (as applicable) together with any rights attaching to those shares.

### 8.3 TITLE TO AND RIGHTS IN SCHEME SHARES

- (a) To the extent permitted by law, the Scheme Shares transferred under the Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) Agrium or Agrium Subsidiary (as applicable) will be beneficially entitled to the Scheme Shares transferred to it under the Scheme pending registration by AWB of Agrium or Agrium Subsidiary (as applicable) in the AWB Share Register as the holder of the Scheme Shares.

#### 8.4 APPOINTMENT OF SOLE PROXY

On the Scheme becoming Effective, and until AWB registers Agrium or Agrium Subsidiary (as applicable) as the holder of all Scheme Shares in the AWB Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed Agrium or Agrium Subsidiary (as applicable) as attorney and agent (and directed Agrium or Agrium Subsidiary (as applicable) in each such capacity) to appoint any director, officer, secretary or agent nominated by Agrium as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution whether in person, by proxy or by corporate representative;
- (b) undertakes not to otherwise attend or vote at any of those meetings or sign any shareholders' resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 8.4(a));
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Agrium or Agrium Subsidiary (as applicable) reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 8.4(a), Agrium or Agrium Subsidiary (as applicable) and any director, officer, secretary or agent nominated by Agrium or Agrium Subsidiary (as applicable) under clause 8.4(a) may act in the best interests of Agrium or Agrium Subsidiary (as applicable) as the intended registered holder of the Scheme Shares.

#### 8.5 AUTHORITY GIVEN TO AWB

On the Scheme becoming Effective, each Scheme Shareholder, without the need for any further act, irrevocably appoints AWB and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of:

- (a) enforcing the Deed Poll against Agrium; and
- (b) executing any document or doing or taking any other act, necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Share Scheme Transfer,

and AWB accepts such appointment. AWB as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers or employees (jointly, severally or jointly and severally).

#### 8.6 BINDING EFFECT OF SCHEME

This Scheme binds AWB and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting, did not vote at that meeting, or voted against the Scheme) and, to the extent of any inconsistency, overrides the constitution of AWB.

### 9. General

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#### 9.1 STAMP DUTY

Agrium will:

- (a) pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1.

#### 9.2 CONSENT

Each of the Scheme Shareholders consents to AWB doing all things necessary, expedient or incidental to the implementation of this Scheme.

#### 9.3 NOTICES

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to AWB, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at AWB's registered office or at the office of the Registrar.

#### 9.4 GOVERNING LAW

- (a) The Scheme is governed by the laws in force in Victoria.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

#### 9.5 FURTHER ACTION

AWB must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.



# Annexure C

## Deed Poll





This deed poll is made on 6 October 2010

By	Agrium Inc. of 13131 Lake Fraser Drive S.E. Calgary, Alberta, Canada T2J 7E8 (Agrium)
in favour of	each person registered as a holder of fully paid ordinary shares in AWB in the AWB Share Register as at the Scheme Record Date.
Recitals	<div>(1) AWB and Agrium entered into the Scheme Implementation Deed.</div> <div>(2) In the Scheme Implementation Deed, Agrium agreed to enter into this deed poll.</div> <div>(3) Agrium is entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform its obligations under the Scheme Implementation Deed and the Scheme.</div>

This deed poll provides as follows:

## 1. Definitions and interpretation

### 1.1 DEFINITIONS

A word or phrase defined in the Scheme has the same meaning in this deed poll.

### 1.2 INTERPRETATION

In this deed poll:

- (a) headings and bold type are for convenience only and do not affect the interpretation of this deed poll;
- (b) the singular includes the plural and the plural includes the singular;
- (c) a reference to a document (including the Scheme) includes all amendments or supplements to, or replacements or novations of, that document; and
- (d) a reference to a clause, party, part, schedule, attachment or exhibit is a reference to a clause or part of, and a party, schedule, attachment or exhibit to, this deed poll and a reference to this deed poll includes any schedule, attachment and exhibit.

### 1.3 NATURE OF DEED POLL

Agrium acknowledges that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it.

## 2. Conditions to obligations

### 2.1 CONDITIONS

Agrium’s obligations under this deed poll are subject to the Scheme becoming Effective.

### 2.2 TERMINATION

The obligations of Agrium under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

- (a) the Scheme Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective by the End Date.

### 2.3 CONSEQUENCES OF TERMINATION

If this deed poll is terminated under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Agrium is released from its obligations to further perform this deed poll except those obligations under clause 7.1; and
- (b) each Scheme Shareholder retains the rights they have against Agrium in respect of any breach of this deed poll which occurs before it was terminated.

## 3. Scheme Consideration

### 3.1 UNDERTAKING TO PAY SCHEME CONSIDERATION

Subject to clause 2, Agrium undertakes in favour of each Scheme Shareholder to:

- (a) deposit (in cleared funds) an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders under the Scheme into an Australian dollar denominated trust account operated by AWB as trustee for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be credited to Agrium’s account; and
- (b) undertake all other actions attributed to it under the Scheme, subject to and in accordance with the provisions of the Scheme.

## 4. Warranties

Agrium represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms.

## 5. Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Agrium has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.

## 6. Notices

### 6.1 FORM OF NOTICE

A notice or other communication in respect of this deed poll (**Notice**) must be:

- (a) in writing and in English and signed by or on behalf of the sending party; and
- (b) addressed to Agrium in accordance with the details set out below (or any alternative details nominated by Agrium by Notice).

<b>Attention</b>	Leslie O'Donoghue
<b>Address</b>	13131 Lake Fraser Drive S.E. Calgary, Alberta, Canada T2J 7E8
<b>Email address</b>	lodonogh@agrium.com

### 6.2 HOW NOTICE MUST BE GIVEN AND WHEN NOTICE IS RECEIVED

- (a) A Notice must be given by one of the methods set out in the table below.
- (b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

Method of giving Notice	When Notice is regarded as given and received
By hand or pre-paid post to the nominated address	When delivered to the nominated address
By email to the nominated email address	When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf.

- (c) Agrium irrevocably appoints Clayton Utz to be its agent for service of process in connection with this deed poll and agrees that any service document in connection with this deed may be effectively served on it by service on its agent if sent or faxed to:
  - (1) Rod Halstead at Levels 19-35, No.1 O'Connell Street, Sydney New South Wales 2000 Australia or (02) 8220 6700; and
  - (2) Kevin O'Sullivan at Level 27, QV.1 Building, 250 St Georges Terrace, Perth Western Australia 6000 Australia or (08) 9481 3095.

## 7. General

### 7.1 STAMP DUTY

Agrium will:

- (a) pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and
- (b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

### 7.2 GOVERNING LAW AND JURISDICTION

- (a) This deed poll is governed by the law in force in Victoria.
- (b) Agrium irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Agrium irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

### 7.3 WAIVER

Agrium may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

The meanings of the terms used in this clause 7.3 are set out below:

Term	Meaning
<b>Conduct</b>	includes delay in the exercise of a right.
<b>Right</b>	any right arising under or in connection with this deed and includes the right to rely on this clause.
<b>Waiver</b>	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

### 7.4 VARIATION

A provision of this deed poll may not be varied unless the variation is agreed to by AWB and the Court indicates that the variation would not of itself preclude approval of the Scheme, in which event Agrium will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

### 7.5 CUMULATIVE RIGHTS

The rights, powers and remedies of Agrium and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

### 7.6 ASSIGNMENT

- (a) The rights created by this deed poll are personal to Agrium and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Agrium.
- (b) Any purported dealing in contravention of clause 7.6(a) is invalid.

### 7.7 FURTHER ACTION

Agrium must, at its own expense, do all things and execute all documents necessary to give effect to this deed poll.



Signing page

Executed as a deed poll

Signed by  
**Agrium Inc.**  
By its authorise signatory in the presence of

sign here  
\_\_\_\_\_  
Authorised signatory

print name  
\_\_\_\_\_

sign here  
\_\_\_\_\_  
Witness

print name  
\_\_\_\_\_

# Annexure D

## Notice of Scheme Meeting



# Notice of Scheme Meeting

AWB LIMITED ABN 99 081 890 459

## NOTICE OF MEETING

Notice is hereby given that, by an order of the Supreme Court of Victoria pursuant to section 411(1) of the *Corporations Act 2001* (Cth), a meeting of ordinary shareholders of AWB Limited will be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010 at 10.00am (Melbourne time).

## BUSINESS OF MEETING

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a Scheme of Arrangement (with or without modification) to be made between the Company and the Company's ordinary shareholders.

## RESOLUTION

The Scheme Meeting will be asked to consider, and, if thought fit, to pass the following resolution:

"That pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria)."

By order of the board of AWB Limited

A handwritten signature in black ink, appearing to read 'Peter Patterson', with a stylized flourish at the end.

**Peter Patterson**

Company Secretary

Dated 7 October 2010



## Explanatory notes

### MATERIAL ACCOMPANYING THIS NOTICE

This notice of meeting and the Scheme Resolution should be read in conjunction with the booklet of which this notice forms part (Scheme Booklet). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in section 11 of the Scheme Booklet.

A copy of the Scheme of Arrangement is contained in Annexure B to this Scheme Booklet.

A Proxy/Voting Form also accompanies this notice.

### VOTING

The AWB Directors recommend that you vote in favour of the Scheme Resolution. They each intend to vote all AWB Shares held by them in favour of the Scheme Resolution.

### QUORUM

A quorum for a meeting of AWB Shareholders is 2 or more members present at the meeting who are entitled to vote on a resolution at the meeting as at 7.00pm on 14 November 2010 (in person, by proxy or representative).

### MAJORITIES REQUIRED

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme of Arrangement to be Effective, the Scheme Resolution must be passed by:

- unless the court orders otherwise, a majority in number of holders of ordinary shares present and voting (either in person or by direct vote or proxy); and
- at least 75% of the votes cast on the resolution.

### COURT APPROVAL

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme of Arrangement must be approved by the order of the Court. If the Scheme Resolution set out in this notice is agreed to by the required majorities set out above and the Conditions Precedent set out in the Scheme of Arrangement are satisfied or waived, AWB will apply to the Court for the necessary orders to give effect to the Scheme of Arrangement.

### DETERMINATION OF ENTITLEMENT TO ATTEND AND VOTE

The Court has ordered that, for the purposes of the Scheme Meeting, AWB Shares will be taken to be held by the persons who are registered as members at 7.00pm on 14 November 2010. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

### HOW TO VOTE

If you are an AWB Shareholder entitled to attend and vote at the Scheme Meeting, you may vote by:

- attending the Scheme Meeting in person;
- direct vote prior to the Scheme Meeting;
- appointing an attorney to vote on your behalf;
- appointing a proxy to attend on your behalf; or
- in the case of a corporation which is an AWB Shareholder, by appointing an authorised corporate representative to attend on its behalf.

### VOTING AT THE SCHEME MEETING WILL OCCUR BY POLL

All persons attending the Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Scheme Meeting is to commence, so that either their shareholding may be checked against the AWB Register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

### JOINTLY HELD SECURITIES

If the AWB Shares are jointly held, each of the joint shareholders is entitled to vote. However, if more than one shareholder votes in respect of jointly held AWB Shares, only the vote of the shareholder whose name appears first on the AWB Register will be counted.

### VOTING IN PERSON

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010. The meeting will commence at 10.00am.

An AWB Shareholder who wishes to attend and vote at the Scheme Meeting in person will be admitted to the Scheme Meeting and given a voting card on disclosure at the point of entry to the meeting of their name and address.

### DIRECT VOTE

To lodge a direct vote you must complete the enclosed Proxy/Voting Form in accordance with the instructions and return it in the reply paid envelope enclosed or by facsimile.

You may also lodge a direct vote online by visiting [www.awb.com.au](http://www.awb.com.au) and following the online instructions. You will need your shareholder registration details.

### VOTING BY PROXY

An AWB Shareholder entitled to attend and vote at the meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy/Voting Form is enclosed with this Scheme Booklet. You may appoint not more than 2 proxies to attend and act for you at the Scheme Meeting. A proxy need not be an AWB Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting.

A proxy will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting written evidence of their name and address.

The sending of a Proxy/Voting Form will not preclude an AWB Shareholder from attending in person and voting at the Scheme Meeting if the AWB Shareholder is entitled to attend and vote.

Please refer to the enclosed Proxy/Voting Form for instructions on completion and lodgement. Please note that Proxy/Voting Forms must be received by the AWB Registry by no later than 2.00pm (Melbourne time) on 14 November 2010.

You may also appoint a proxy online by visiting [www.awb.com.au](http://www.awb.com.au) and following the online instructions. You will need your shareholder registration details.

### **VOTING BY ATTORNEY**

Powers of attorney must be received by the AWB Registry, at the registered office of the AWB Registry, by no later than 2.00pm (Melbourne time) on 14 November 2010 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the Scheme Meeting).

An attorney will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry of the Scheme Meeting written evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude an AWB Shareholder from attending in person and voting at the Scheme Meeting if the AWB Shareholder is entitled to attend and vote.

### **VOTING BY CORPORATE REPRESENTATIVE**

To vote at the Scheme Meeting (other than by direct vote, proxy or by attorney), a corporation that is an AWB Shareholder must appoint a person to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

### **LODGEMENT OF PROXIES AND QUERIES**

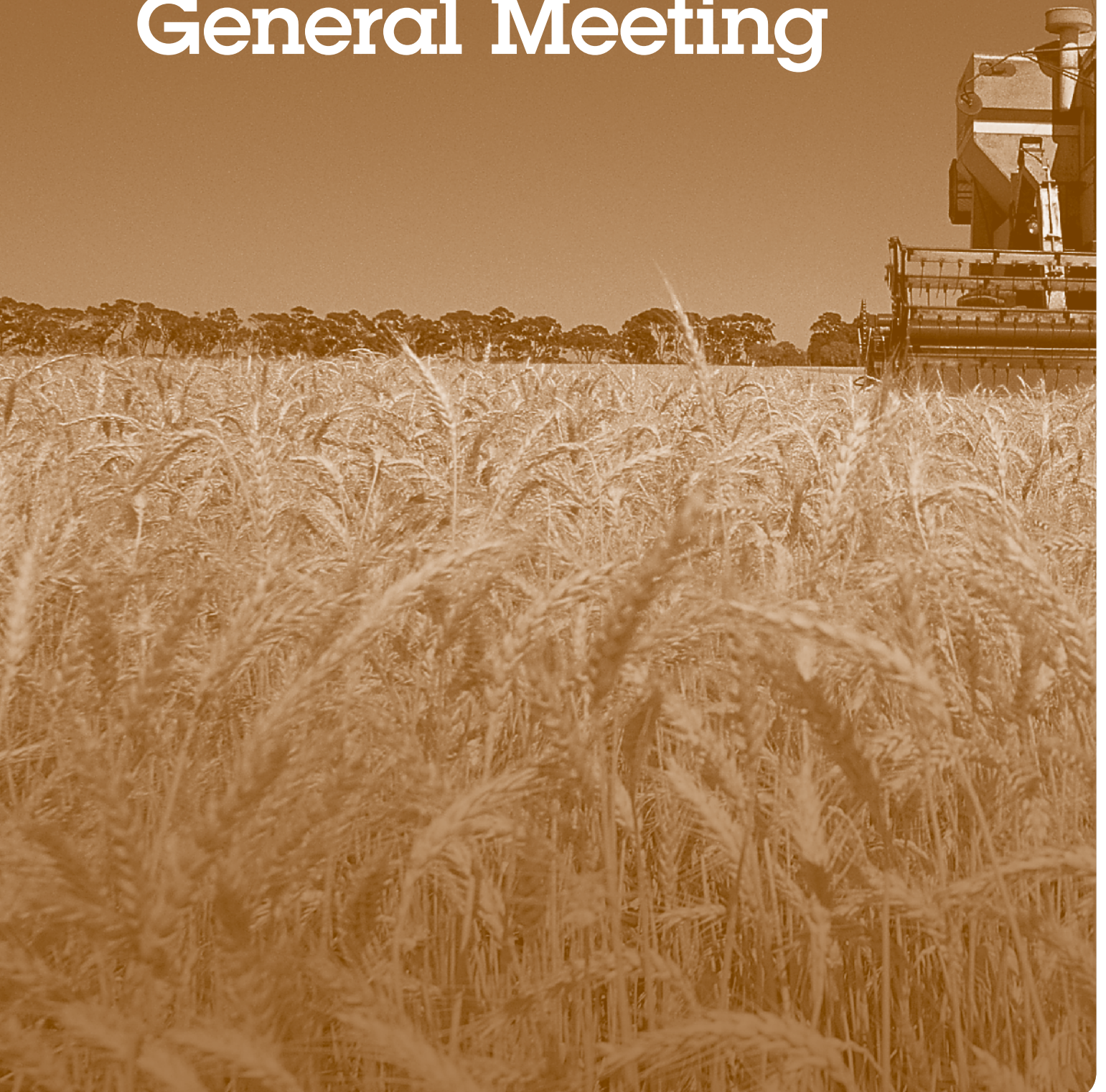
Proxy/Voting Forms powers of attorney and authorities should be sent to:

- the AWB Registry using the enclosed reply paid envelope, or if you are outside of Australia or do not use the reply paid envelope to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001, Australia;
- successfully transmitted by facsimile to Computershare on 1800 800 053 (within Australia) or +61 3 9473 2555 (outside Australia); or
- online: Shareholders/Employees: [www.awb.com.au](http://www.awb.com.au)  
Custodians: [www.intermediaryonline.com](http://www.intermediaryonline.com)



# Annexure E

## Notice of Extraordinary General Meeting





# Notice of Extraordinary General Meeting

**AWB LIMITED ABN 99 081 890 459**

Notice is hereby given that a general meeting of members of AWB Limited will be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010 at 11.00am (Melbourne time) or immediately after the conclusion of the Scheme Meeting (whichever is later).

## 1. Removal of 10% shareholding cap

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To consider and, if thought fit, to pass the following resolution as a special resolution:

“That, subject to approval by the Court of the scheme of arrangement between the Company and its shareholders as described in the Scheme Booklet of which the notice convening this meeting forms part, Rules 24.1, 24.2 and 24.3 of the Company’s Constitution be deleted, with effect from the date the Scheme becomes effective.”

## 2. Payment of dividends from sources other than profits

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To consider and, if thought fit, to pass the following resolution as a special resolution:

“That Rule 29.2 of the Company’s Constitution be deleted and a new Rule 29.2 in the form contained below be inserted with immediate effect.

### ***‘Rule 29.2 Source of dividends***

*When resolving to pay a dividend the Board may direct payment of the dividend from any available source permitted by law. The Company does not incur a debt merely by fixing the amount or time for payment of a dividend. A debt arises only when the time fixed for payment arrives. The decision to pay a dividend may be revoked by the Board at any time before then.”*

By order of the board of AWB Limited



**Peter Patterson**

Company Secretary

Dated 7 October 2010

## Explanatory notes

### MATERIAL ACCOMPANYING THIS NOTICE

This notice of meeting should be read in conjunction with the booklet of which this notice forms part (Scheme Booklet). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in section 11 of the Scheme Booklet.

A Proxy/Voting Form also accompanies this notice.

### VOTING

The AWB Directors recommend that you vote in favour of the resolutions. They each intend to vote all AWB Shares held by them in favour of the resolutions to amend the AWB Constitution.

### QUORUM

A quorum for a meeting of AWB Shareholders is 2 or more members present at the meeting who are entitled to vote on a resolution at the meeting as at 7.00pm on 14 November 2010 (in person, by proxy or representative).

### MAJORITIES REQUIRED

In accordance with section 136(2) of the Corporations Act, an amendment of the AWB Constitution must be approved by a special resolution. This means for the amendment to the AWB Constitution to be effective, each resolution must be passed by at least 75% of the votes cast on the resolutions.

### PURPOSE OF THE MEETING

The resolutions proposed relate to the removal of the 10% shareholding cap and enabling AWB to pay dividends from any source permitted by law. These are described in more detail in the Scheme Booklet, of which this notice of meeting forms part.

### RULES PROPOSED TO BE DELETED FROM THE AWB CONSTITUTION

The text of the rules of the Company's Constitution that are proposed to be deleted are as follows:

#### “24. 10% SHAREHOLDING LIMIT

##### 24.1 Overriding Provision

(a) Rules 24.1, 24.2 and 24.3 apply despite anything else in this document and will cease to apply, and be of no effect, on and from 3 years from the date of first adoption of this document.

(b) In rules 24.1, 24.2 and 24.3:

- (i) a person shall be taken to own a share if, and only if:
  - (A) that person has a relevant interest in the share for the purposes of the Act disregarding subsection (6) and (7) of section 609; or
  - (B) an associate of that person has such a relevant interest in the share;
- (ii) “associate” in relation to a person (the “primary person”) means:
  - (A) if the primary person is a body corporate:
    - (I) a body corporate that the primary person controls; or
    - (II) a body corporate that controls the primary person; or
    - (III) a body corporate that is controlled by an entity that controls the primary person;

- (B) a person with whom the primary person has, or proposes to enter into, a relevant agreement for the purpose of controlling or influencing the composition of the Company's board of directors, or the conduct of the Company's affairs; and
- (C) a person with whom the primary person is acting, or proposing to act, in concert in relation to the Company's affairs;

- (iii) “person” does not include the Company or any subsidiary of the Company;
- (iv) a reference to the formation by the Directors of an opinion or a belief is a reference to an opinion or belief as the case may be, formed by a simple majority of Directors in their absolute discretion present and voting at any meeting of Directors. The Directors shall not be obliged to provide to any person any reason or grounds for any such opinion or belief;
- (v) “body corporate”, “relevant agreement” and “securities” have the same meaning as those expressions have when used in the Act.

#### 24.2 No more than 10% of voting shares

- (a) A person shall not own more than 10 per cent of the Shares.
- (b) A person shall not acquire any issued Shares if any person would, immediately after the acquisition, own more than 10 per cent of the issued Shares.
- (c) The Directors shall not issue any Shares if they are of the opinion that if the Shares were issued a person would contravene rule 24.2(a).
- (d) Subject to the Act, the Directors must decline to register any transfer or transmission of any securities of the Company if they are of the opinion that if the transfer or transmission were registered a person would contravene rule 24.2(a).
- (e) The Directors must not authorise the issue of any securities of the Company which, by virtue of any terms or conditions applicable to them, are convertible, or
 

may be converted, into Shares unless those terms or conditions provide that those securities may not be so converted by their holder if the Directors are of the opinion that such a conversion will result in a person contravening rule 24.2(a).
- (f) A person who contravenes rule 24.2(a) does not, while that contravention continues, have any right:

- (i) to vote any Shares owned by that person at any general meeting of the Company. At any general meeting:
  - (A) a ruling by the chairman of the meeting that a person does not have a right to vote for the reason set out in this paragraph shall be final and bind the person concerned; and
  - (B) no resolution shall be invalid by reason only that it is found later that a person voted on that resolution when that person did not have a right to vote at that meeting for the reason set out in this paragraph; and
- (ii) to dividend or other distribution by the Company (including any distribution on a winding up of the Company) under this document in relation to any Shares owned by that person.

- (g) A member who is paid a distribution by the Company to which a person is not entitled under paragraph (f)(ii) unless the Directors believe that such a member was not aware that such person contravened rule 24.2(a) shall refund that payment to the Company promptly upon notice from the Company requiring that payment to be refunded. The Company has a first and paramount lien on any Share (even if fully paid) on which a payment mentioned in this sub-rule is made and may enforce that lien in the manner specified in rule 27.10.

#### **24.3 Directors may require disposal**

- (a) If the Directors form the opinion that a person (in this rule 24.3 the “owner”) is contravening rule 24.2(a), the Directors may cause a notice to be given to any person believed by the Directors to be a member in respect of any Share owned by the owner, requiring the disposal, within a period of not less than 28 days specified in the notice, of such number of Shares as the notice may specify or, if the notice does not specify a number, so many of the Shares held by that member as the Directors may consider necessary to ensure that, after that disposal, the owner will not contravene rule 24.2(a).
- (b) (i) If the requirements of a notice given under sub-rule (a) are not complied with, the Company may sell, in such manner and on such terms as the Directors in their absolute discretion determine, the number of Shares specified in the notice or, if the notice did not specify a number, so many of the Shares owned by the owner as the Directors may consider necessary to ensure that, after that sale, the owner will not contravene rule 24.2(a), and a transfer of any such Shares signed by a Director for the purposes of giving effect to the sale shall be as valid and effectual as if signed by the member in respect of the Shares.
- (ii) The Company may receive and give a good discharge for the proceeds of a sale under paragraph (i), may pay or recoup out of those proceeds all costs and expenses of or incidental to the sale and shall pay the net amount to the person (the “former member”) who immediately before the sale was the member in respect of the Shares sold.
- (iii) The Company will not be bound to see to the application of the net amount paid to the former member under paragraph (ii) and that amount may be paid by cheque posted to the former member at their address appearing in the register.
- (c) The omission to give a notice to a person under sub-rule (a) shall not affect the validity of a notice given to another person in respect of a Share owned by the owner.”

#### **“Rule 29.2 Dividends must be paid out of profits**

The Company must not pay a dividend except out of profits of the Company (including profits previously set aside as a reserve). The Company does not incur a debt merely by fixing the amount or time for payment of a dividend. A debt arises only when the time fixed for payment arrives. The decision to pay a dividend may be revoked by the Board at any time before then. A resolution of the Board as to the amount of the Company’s profits and the amount of them available for dividend is conclusive.”

#### **DETERMINATION OF ENTITLEMENT TO ATTEND AND VOTE**

Each person who is recorded on the AWB Register as members at 7.00pm on 14 November 2010 is entitled to attend and vote at the Extraordinary General Meeting. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Extraordinary General Meeting.

#### **HOW TO VOTE**

If you are an AWB member entitled to attend and vote at the Extraordinary General Meeting, you may vote by:

- attending the Extraordinary General Meeting in person;
- direct vote prior to the Extraordinary General Meeting;
- appointing an attorney to vote on your behalf;
- appointing a proxy to attend on your behalf; or
- in the case of a corporation which is an AWB Shareholder, by appointing an authorised corporate representative to attend on its behalf.

#### **VOTING AT THE EXTRAORDINARY GENERAL MEETING WILL OCCUR BY POLL**

All persons attending the Extraordinary General Meeting are asked to arrive at least 30 minutes prior to the time the Extraordinary General Meeting is to commence, so that either their shareholding may be checked against the AWB Register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

#### **JOINTLY HELD SECURITIES**

If the AWB Shares are jointly held, each of the joint shareholders is entitled to vote. However, if more than one shareholder votes in respect of jointly held AWB Shares, only the vote of the shareholder whose name appears first on the AWB Register will be counted.

#### **VOTING IN PERSON**

To vote in person at the Extraordinary General Meeting, you must attend the Extraordinary General Meeting to be held at Arthur Streeton Auditorium, Sofitel Melbourne on Collins, 25 Collins Street, Melbourne on 16 November 2010. The meeting will commence at 11.00am (Melbourne time) or immediately after the conclusion of the Scheme Meeting (whichever is later).

An AWB Shareholder who wishes to attend and vote at the Extraordinary General Meeting in person will be admitted to the Extraordinary General Meeting and given a voting card on disclosure at the point of entry to the Extraordinary General Meeting of their name and address.

### **DIRECT VOTE**

To lodge a direct vote you must complete the enclosed Proxy/Voting Form in accordance with the instructions and return it in the reply paid envelope enclosed or by facsimile.

You may also lodge a direct vote online by visiting [www.awb.com.au](http://www.awb.com.au) and following the online instructions. You will need your shareholder registration details.

### **VOTING BY PROXY**

An AWB Shareholder entitled to attend and vote at the meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy/Voting Form is enclosed with this Scheme Booklet. You may appoint not more than 2 proxies to attend and act for you at the Extraordinary General Meeting. A proxy need not be an AWB Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Extraordinary General Meeting.

A proxy will be admitted to the Extraordinary General Meeting and given a voting card on providing at the point of entry to the Extraordinary General Meeting written evidence of their name and address.

The sending of a Proxy/Voting Form will not preclude an AWB Shareholder from attending in person and voting at the Extraordinary General Meeting if the AWB Shareholder is entitled to attend and vote.

Please refer to the enclosed Proxy/Voting Form for instructions on completion and lodgement.

Please note that Proxy/Voting Forms must be received by the AWB Registry by no later than 2.00pm (Melbourne time) on 14 November 2010.

You may also appoint a proxy online by visiting [www.awb.com.au](http://www.awb.com.au) and following the online instructions. You will need your shareholder registration details.

### **VOTING BY ATTORNEY**

Powers of attorney must be received by the AWB Registry, at the registered office of the AWB Registry, by no later than 2.00pm (Melbourne time) on 14 November 2010 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the Extraordinary General Meeting).

An attorney will be admitted to the Extraordinary General Meeting and given a voting card on providing at the point of entry of the Extraordinary General Meeting written evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude an AWB Shareholder from attending in person and voting at the Extraordinary General Meeting if the AWB Shareholder is entitled to attend and vote.

### **VOTING BY CORPORATE REPRESENTATIVE**

To vote at the Extraordinary General Meeting (other than by direct vote, proxy or by attorney), a corporation that is an AWB Shareholder must appoint a person to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Extraordinary General Meeting and given a voting card on providing at the point of entry to the Extraordinary General Meeting written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

### **LODGEMENT OF PROXIES AND QUERIES**

Proxy/Voting Forms, powers of attorney and authorities should be sent to:

- the AWB Registry using the enclosed reply paid envelope, or if you are outside of Australia or do not use the reply paid envelope to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001, Australia;
- successfully transmitted by facsimile to Computershare on 1800 800 053 (within Australia) or +61 3 9473 2555 (outside Australia); or
- online: Shareholders/Employees: [www.awb.com.au](http://www.awb.com.au)  
Custodians: [www.intermediaryonline.com](http://www.intermediaryonline.com)

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## Corporate Directory

### AWB LIMITED

380 La Trobe Street  
Melbourne VIC 3000 Australia  
Website: [www.awb.com.au](http://www.awb.com.au)

### AWB REGISTRY

Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne VIC 3001 Australia

or

Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067 Australia

### AWB INFORMATION LINE

(within Australia) 1800 810 032  
(outside Australia) +61 3 9415 4393

### FAX

(within Australia) 1800 800 053  
(outside Australia) +61 3 9473 2555

### FINANCIAL ADVISER

Deutsche Bank  
333 Collins Street  
Melbourne VIC 3000 Australia

### LEGAL ADVISER

Freehills  
101 Collins Street  
Melbourne VIC 3000 Australia





[www.awb.com.au](http://www.awb.com.au)

AWB Limited

ABN 99 081 890 459

