Saskatchewan Wheat Pool

1st Quarter Investor Conference Call – December 20, 2000

Colleen Vancha: Good Morning Ladies and Gentlemen. Thank you for joining us to discuss the Pool's financial results for the period ending October 31, 2000.

I'm pleased to introduce you to Mr. Michael McCord who assumed the role of Executive Vice President, Finance and Chief Financial Officer in October. Mike served as Chief Financial Officer of ConAgra Grain Companies and Vice President & Controller of ConAgra's Global Trade Group. In addition, he held a number of senior management positions at General Mills Inc. Mr. McCord will review the financial results for the period.

Our Chief Executive Officer, Mayo Schmidt will outline our operational performance and update our expectations for the remainder of the year. We will wrap up with the question and answer session. Richard Klassen, Executive VP of the Food and Industrial Group and Mr. William Hill, our Senior VP of the Grain Group and interim Senior VP of the Agri-Products Group will be available to take your questions as well.

Michael McCord: Thank you, Colleen. Good Morning Ladies and Gentlemen. I intend to keep my comments relatively brief since you already have the quarterly report in front of you.

Sales and operating revenues were $792 million for the first quarter of fiscal 2001, an improvement of 16% compared to $682 million for the first quarter of fiscal 2000. The cost of sales and operating expenses as a percentage of sales improved in the first quarter, reflecting margin improvements in all core business segments. Our continued emphasis on cost control has also resulted in a $2 million reduction in selling and administrative expenses.

- Sales in the Grain Handling and Marketing segment were up $63 million to $503 million compared to $440 million primarily as a result of increased volumes in the primary and terminal systems.
- We achieved $89 million in Agri-Products sales, a 56% improvement over sales of $57 million in the first quarter of fiscal 2000. Stronger fertilizer sales were the primary factor for this increase.
- Livestock Production and Marketing sales also increased to $56 million from $42 million a year earlier driven by increased hog sales, and

- Sales from the Agri-food Processing segment remained relatively unchanged at $153 million for the quarter.

EBITDA, or earnings before interest, securitization, depreciation, amortization and taxes in the 1st quarter improved to $29.6 million, nearly four times the level in the same quarter last year. All five business segments posted strong quarter over quarter improvements.

- The Grain Handling and Marketing segment led the 1st quarter improvement with EBITDA of $12.2 million - $10.2 million ahead of last year. Grain deliveries into the primary system were 2.3 million tonnes, up nearly 100,000 tonnes from the first three months of last year. Approximately 54% of the grain volumes handled by the Pool were for the account of the Canadian Wheat Board, down from 58% in the first quarter last year. Total non-Board grain volumes were up 14% over the first quarter last year reflecting strong deliveries of peas and oats. Grain deliveries into Saskatchewan and Manitoba facilities improved over last year while Alberta volumes were comparable because of the drought in that province.

- With respect to shipments, the Pool accounted for 27.5% of the Canadian Wheat Board's shipments during the period up slightly from last year.

In the port terminal system,

- Overall volumes were up 13% led by a 60% improvement at the Pool's wholly owned port terminal in Vancouver. A strong export program off the West Coast improved Vancouver volumes by 260,000 tonnes. The terminal handled 695,000 tonnes this quarter compared to 435,000 tonnes in the first quarter last year. The port experienced increased movement in both Canadian Wheat Board and other commodities. In addition, Prince Rupert remained closed until October 15 so more volumes flowed through Vancouver.

- Thunder Bay volumes were down 79,000 tonnes as a result of a decrease in Wheat Board shipments through the eastern corridor.

- In total, tonnes managed through Pool owned port facilities were 1.16 million tonnes compared to 980,000 tonnes last year – an 18.5% improvement.

- Volumes through the Mexican port terminal were double last year's levels, but still well below expectations. We continue to consider our options for the terminal and look for opportunities to improve the volumes through that facility.

On the cost side, Grain Group operating costs were lower than last year, primarily as a result of lower salaries, wages and benefits.

In the Agri-Product segment,

- EBITDA was $3 million compared to a loss of $500,000 in the first quarter of Fiscal 2000. Last year, early snowfall impaired fall fertilizer sales. This year, favourable weather conditions allowed fertilizer sales to normalize. In addition, producers increased their fertilizer purchases because of concerns that fertilizer prices would increase in the spring due to higher natural gas prices.

EBITDA in the Agri-food Processing segment was $12.1 million, over $3 million stronger than the prior period.

- CanAmera led the improvement with improved soybean crushing volumes and stronger margins in all sectors. Can-Oat Milling's result also improved as a result of increased sales volumes, increased margins and improved operational efficiencies. CSP Foods improved their margins per tonne as they continued to reap the benefits of their cost reduction initiatives and employed a focused approach in the marketplace.

- And finally, Premium Brands experienced a loss in the current quarter due to insufficient hog supplies that limited their ability to achieve cost efficiencies at the Red Deer facility.

In the Livestock Production and Marketing segment,

- A $3 million improvement in EBITDA led to earnings of $5.2 million for the quarter. Heartland Pork, the Pool's hog production business is now fully operational. They marketed 80,400 finished hogs in the first 3 months, more than three times the 24,000 marketed last year. Volumes through the Livestock unit were 264,000 head up 10% from the 241,000 head last year.

- EBITDA of $486,000 from the Publishing Segment was slightly higher than last year's quarter.

- And finally, corporate expenses declined $1.4 million to $4 million for the first quarter of Fiscal 2001.

Moving down the income statement….

Depreciation and amortization increased to $18.8 million from $16.7 million for the first quarter last year, reflecting the first full year of depreciation on the Project Horizon and pork production facilities.

EBIT or earnings before interest, securitization and taxes increased $20 million to $10.9 million compared to a loss last year of $9.1 million.

Interest and securitization totaled $20 million in the first quarter compared to $14.2 million last year. The increase is attributable to increased rates, increased borrowings and less interest capitalized in the current year.

And finally the net loss for the first three months of fiscal 2001 improved more than 50%. The Pool recorded a net loss of $6.7 million or $0.18 per share compared to $14.5 million or $0.39 per share last year.

Cash flow from operations for the 1st quarter was $10.7 million, or $0.29 per share - substantially stronger than Fiscal 2000's $0.05 per share.

Working capital increased to $82 million and the current ratio was 1.12.

At October 31, 2000 the Pool's debt to equity ratio was 61:39 compared to 56:44 last year. The change reflects increased short term borrowing requirements and financing related to completion of our capital expenditure programs, combined with a decrease in shareholder's equity. The Management Discussion and Analysis in the Quarterly Report provides substantial disclosure on our various debt components. Rather than reviewing those in detail, I'll just make a couple of points:

- The Pool was offside its interest coverage test at October 31. Waivers were granted by the Pool's financial institutions for the 1st quarter.
- Short-term borrowings increased by $87 million to $272 million resulting from:
  - A $30 million decrease in Member demand loans from $68 million in the first quarter last year to $38 million this quarter.
  - Accounts receivable increasing $42 million to $380 million and accounts payable decreasing $60 million to $351 million largely as a result of changes to the Pool's securitization program.

- The Pool's securitization program, which is utilized for our agri-products business, expired on November 3 as a result of the DBRS downgrade in July. The Pool is currently reviewing its options to renew or replace the program.

- We have made significant progress with our bank negotiations and we expect that these negotiations will be satisfactorily resolved over the next 12 weeks. We will announce specific details at that time.

- And finally capital expenditures for the period were only $9 million of which approximately half was affiliate spending. This compares to consolidated capital spending of $52 million last year.

That concludes my review of the 1st quarter financial results. Mayo will now report on the Pool's operational progress and provide a look ahead for the remainder of fiscal 2001.

Mayo Schmidt… Thank you Mike…. I am pleased to report improved results for our first quarter of Fiscal 2001. We are making progress in reducing costs and adjusting our business strategies. Although we are entering our seasonally low period over the next two quarters, I believe we will continue to see the positive impact of our decisions as we move through the remainder of the year.
I would like to touch on a number of specific operational achievements.

In the first three months of this year the Pool capitalized on its leading multi-car loading capabilities in western Canada. 78% of the Pool's shipments were loaded in unit trains of 25 cars or more and qualified for freight incentives – 55% were 50 or 100 carloads. In comparison, during the first quarter of 2000, only 58% of Pool shipments received incentives with 30% being loaded in 50's and 100's. By mid-2001, we expect nearly 100% of shipments to be multi-car loads. To give you a sense of the opportunity for revenue enhancement, incentives range from $1 per tonne for 25 cars to up to $6 per tonne for 100 car loads to export position.

The Pool has also accomplished significant improvements in its car allocation. Last year, over 2,200 car penalties were assessed against the Pool. In the first quarter of this year, we gained 563 cars from our competitors. The Pool was awarded additional cars by exceeding the industry's shipping performance standards in the first three months of fiscal 2001.

The new level of discipline we have employed in the Grain Group emphasizes advanced planning, quality control and inventory management. We are confident we can maintain our improved shipping performance by focussing on these disciplines and capitalizing on the strategic advantages that our integrated commodity pipeline has to offer.

But we recognize more has to be done to reduce our cost base so that we can capture systems efficiencies, improve margins and ultimately become the low cost grain marketer. On November 16, we announced a further consolidation of our agri-products and grain system. We will close an additional 55 specialty and conventional elevators and reduce our employee base by an additional 250 employees.

Restructuring costs of $13 million will be recorded against second quarter earnings, with approximately $6 million representing the book value of the assets targeted for closure. The annual pre-tax savings from this initiative are estimated to be $6 million in fiscal 2001 and $11 million thereafter. In total, we estimate that the two restructuring initiatives announced this calendar year should result in $21 million in cost savings in fiscal 2001 and $31 million annually thereafter. The majority of the savings are still to come as we move this year's harvest out of the system and complete our consolidation efforts.

Once our consolidation efforts are complete, the Pool will operate a network of 55 high throughput grain handling facilities and 24 specialty plants, including eight organic and seed processing plants, across western Canada. We will operate 16 farm supply centres and 61 local service outlets. We will also continue to sell agri-products through the grain-handling network.

To give you a sense of our geographical coverage - In Saskatchewan, our primary market, less than 6% of Pool members will be more than 40 miles from a primary delivery facility and fewer than 5% of Pool members will be more than 30 miles from one of the Pool's retail agri-products outlets.

As evidenced by last week's XCAN announcement we have also made a significant change to our international marketing strategy. We are moving to a 3-point integrated grain marketing strategy that will allow us to reduce operating costs and significantly enhance our access to global markets. On December 11, we announced that we would redeem our shares in XCAN Grain for approximately $11 million. This represents the estimated book value of our interest in this operation. Consistent with our stated objective, we will use the proceeds from this divestiture to reduce debt. In addition, we expect cost savings of approximately $1 million annually as a result of exiting XCAN.

The 3 components to the integrated marketing strategy include:

1. Utilizing XCAN in Japan through an exclusive marketing agreement for specific commodities into that region. XCAN has a 50% market share in canola in that market.

2. Secondly, as you know we have significantly strengthened our in-house marketing expertise and we intend to enhance our marketing presence in geographies where the Pool's brand is recognized and where synergies exist with our integrated commodity pipeline.

3. The third piece involves building new alliances with other international marketers who have key supply relationships and require the Pool's organizational strength in managing specific qualities and quantities that meet the requirements of end-use customers. We have initiated discussions with a number of international marketing firms who are well positioned in the global agri-food marketplace. These new strategic partnerships will:
    - allow us to capitalize on their marketing relationships
    - provide the Pool with access to new markets for its products, and
    - limit the Pool's exposure and country risk.

Negotiations are ongoing and we will provide additional information at a future date.

With respect to the sale of our interest in the ocean port terminal at Gdansk:

- We finalized the sale on December 6 for $U.S. $7 million.
- We are pleased to have this project behind us, particularly given the ongoing disputes with one the Project partners. All litigation associated with the Project has been discontinued as a result of finalizing the deal.

Looking forward on a segment by segment basis:

- **In the grain segment,** as we've said in our 2000 Annual Report, volumes through the primary system for the year should be similar to last year.
- We have increased our margins per tonne in the primary system as we drive efficiencies through the system and complete our consolidation.
- A major focus for the remainder of the year will be on continuing to increase Pool shipments in multi-car unit trains. While we expect solid progress, the lack of Canadian Wheat Board planning on grain movement and uncertainty on their forward booking program may present some challenges.
- Canadian grain and oilseed production from this year's harvest is down approximately 7%. However, this decline should not impact total exports from western Canada, which are expected to be similar, because of the sufficient level of carry over stocks.
- Volumes through our port terminals are also expected to be similar to last year.

In the Agri-Products segment,

- Current indications are for a return to more normalized earnings with both the Pool's retail operations and WCFL expecting improved sales and margins.
- The potential uncertainty in this segment arises as a result of changes to producers' seeding intentions. A major switch from oilseeds to wheat could impact seed and input sales. Canola prices are well below average and that may encourage producers to choose wheat over canola.
- The Pool has strengthened its marketing and logistic efforts and intends to work closely with producers to ensure we meet their seeding and crop input requirements.

In the Agri-food segment, we expect to see improved results from the key businesses - CanAmera, CSP Foods and Can-Oat.

- CanAmera's competitive position is expected to provide good results, given strong crushing volumes and its ability to refine 100% of its crush into value added products.
- CSP Foods is expected to continue to benefit from its cost reduction initiatives and focus on higher margin products lines.
- At Can-Oat, we have strengthened their management and expect them to improve results by achieving operational efficiencies and enhancing their competitive position.
- And finally, Premium Brands has entered into strategic alliances with a number of pork producers to alleviate supply pressures and help to reduce their exposure to price swings in the future.

In the Livestock segment, expectations have not changed

- Heartland Pork will be at full production this year, which will improve their results. Annual production capacity is now estimated at over 360,000 finished hogs compared to 330,000 previously announced. The increase in capacity is due to improved production efficiencies. In addition, a comprehensive risk management program has been implemented at Heartland to reduce vulnerability to commodity and hog market price fluctuations.
- The cattle business will remain steady.
- The outlook for the feed business is also positive as raw materials are expected to remain plentiful. Heartland Feeds (formerly CanGro Processors) expects to achieved sales improvements as a result of increased demand from the Pool's hog production units.

Overall we expect to improve operating performance substantially. The next two quarters will be seasonally slow with substantial pick-up in the 4th quarter. Even with operating performance improvements, fiscal 2001 is a transition year for the Pool.

Our priorities today are to finalize our banking agreements and move forward with our aggressive but attainable business plan. The management team recognize that the Pool has a multitude of opportunities to improve the performance of its asset base. Our plan is to focus on balance sheet strength, improving earnings potential and achieving financial flexibility. We will do this by focussing on our core operations of grain handling, agri-product sales and livestock marketing and rightsizing those businesses to achieve efficiency. We will divest of assets that are not of fundamental economic value to the Pool. And we will maximize our superior commodity pipeline by forging new strategic alliances with destination customers who have the markets for our products.

Thank you for your attention. We would be please to entertain your questions.

Questions and Answers

Q: Good morning. Congratulations on your much improved Q1 results year over year. I was wondering if you have an internal forecast for what your cash flow from operations will be for the full year?

McCord: Yes, I can answer that. This is Mike McCord. We are looking at the cash flows being improved over last year's results and of course that is dependent on our securitization programs that we are working on right now with the banking group.

Q: Sorry, you don't have an estimate then for your cash flow for the full year?

McCord: No, not at this time.

Q: Okay. Can you give us your budget for capital expenditures for the full year?

McCord: We've got a capital expenditure program of approximately $45 million. About half of that would be for internal and the balance of that would be for affiliates.

Q: And do you expect that you'll require raising capital externally, outside the company?

McCord: No, not at this time.

Q: And that takes into consideration your status on your current bank lines?

McCord: Yes.

Q: You expect that to be settled, therefore meaning you do not require other external financing?

McCord: That is absolutely correct, yes.

Q: Is there any significant assets disposals or acquisitions that are currently in the works that you can talk about?

McCord: Currently, as far as any potential divestiture, certainly it is a sensitive issue strategically. We're developing our business analysis. I think XCAN is certainly the first indication you've seen of that. Certainly from a point of view of remaining, of continuing with our core assets and divesting of those businesses that are non-core, you are certain to see other action. We'll certainly be prepared to announce that immediately upon initiating that action.

Q: Do you have a target dollar amount of disposals that you would like to reach this year?

McCord: I don't have one that I can announce for you today. We will shortly. I think key indicators, if you look at the last 10 months at the aggressiveness with which we've approached this business. And we've already of course announced a couple divestitures and provisions and a number of restructuring and closure of businesses. I don't expect necessarily that trend to slow down any, in the sense of the action that we're going to take going forward.

Q: Just one last point. I noticed that the changes in working capital on your cash flow statement were minus $54 million this quarter. Last year in Q1 they were plus $14 million. Can we expect your working capital to reverse or will it continue to be a drain on your cash?

McCord: I would say that's an aberration this quarter as a result of the changes in the securitization program. That had a dramatic effect on the working capital for this first quarter.

Q: So we can expect that to reverse then?

McCord: As we replace that program you'll see that the trend will not continue.

Q: Okay. Thank you.

Q: Hi. Congratulations on the continued progress. Just a few questions, more of a housekeeping nature. What is your effective tax rate for the balance of this year? I noticed it was 26% for the first quarter.

McCord: Unfortunately I don't have the answer to that right now. We'd have to get back to you on that one.

Q: Okay. And your market share of western Canadian grain handles, is it stabilised at around 24%/25% or are you seeing some recovery there?

Schmidt: I would say that it certainly has been stabilized. I expect to see some fluctuation within that. We'll be certainly giving you an annual number. The competitors have only now begun to look at the progress we've made and the substantial changes to our business. I think it's going to have an effect to drive some more sense of urgency into our competitors and therefore I think the closures on their part will increase. And I think that's where we should begin to capture some market share back. But certainly, as we've indicated, most of the savings related to the closures and that income stream has yet to be realized and those closures are in fact on track. Most of that's going to take place certainly over the next three to six months. So we're still stabilizing our market share in going through such a dramatic closure program and it's very encouraging to this organization.

Q: Any of your competitors that you are to note on the conference call that are actually focused on closures right now, as we speak?

Schmidt: Well, I guess in a sense there have been as you look at history and just briefly, the 5,000 facilities that have existed over western Canada are down to 1,200 and we owned over 450 of those in rough numbers. I would say that Agricore has the most facilities to close. UGG closed facilities, as everyone has been closing facilities very slowly. But the fact is that all of these companies, including ourselves, have had too many to close, and certainly that's going to reduce the capacity across western Canada. I think the thing that excites me is that normally when we build a new facility, we analyze the market share to be within 50 or 60 miles, and as we just discussed, the majority of our draw of that market share is within 40 miles of our facilities. So I look forward to our competitors rolling out their closure program.

Q: Yes, absolutely. One last question. The large grain handlers, they are not really participating in the new tendering process. Any reason for that, or what's with the dynamic there?

Schmidt: Well, it's functionally a process where the government has issued a Memorandum of Understanding that defines the process going forward, which includes tendering, which particularly plays to the strong suit of our organization with 60% of the 100 car loading capacity in western Canada. The reason we haven't participated is that the Canadian Wheat Board has suggested that they want to become the shipper of record and control more of the system. And that goes against the Memorandum of Understanding and the Government mandate. And we've simply insisted that before we engage ourselves in tendering, that the rules and the obligations associated with that will be clearly defined, and that, in fact, we will be able to run our operation as a commercial enterprize. And certainly to the advantage of our customers, the farmers and destination users. I don't know that I can tell you that we'll see resolution in the next 30 to 60 days. I'd like to think we would, but unfortunately the Wheat Board has taken a very strong stance that the process has to go their way. And right now, not only does the industry, railroads, grain companies, farmers and government, all believe that the Wheat Board has overstepped their bounds. And the entire industry is moving to cure that problem.

Q: Okay. Very good. And the deferred input program, the impact and timing of the balance sheet. How does that actually work through?

McCord: When you talk about the deferred program with farm inputs, we use a securitization program, as you are well aware of, to keep the accounts receivable off – more or less off balance sheet – as we finance those receivables. With that program going away, that brought more receivables to our balance sheet this quarter.

Q: Okay. And obviously that's something you're taking a look at, as you mentioned in the press release, right?

McCord: Yes we are.

Q: Thanks. Have a merry Christmas and keep up the great work.

Schmidt: Yes, thanks for your vote of confidence.

Q: Thank you.

Q: Good morning gentlemen. Could you please explain to me exactly to whom the incentives in the transportation side accrue? Is it the Pool itself, or is it benefits that you have to pass on to your shippers in order to incent them to ship through you, given the competition in the industry?

Schmidt: That's a good question, I will give you a brief, but I think thorough answer. One is that those efficiency savings – because we as an organization pay the freight –we determine whether those will be loaded in 25, 50 or 100 car trains. So our organization captures 100% of the efficiency savings related to loading multiple car units, and in fact we are looking forward to, as the new shuttle train program which drives even more efficiency and savings into our system, becomes available to this organization. That's recently been announced by the railroad.

I think it's important to mention that we do pass some dollars on to producers to attract business. That's in a way how we differentiate ourselves from our competitors. Some of it's passed back in terms of freight subsidization for their trucking and some is passed back in the sense of blending. But we also on the blending side, use two different producers' grain to blend and improve the quality of the grain, and take advantage of that income stream ourselves.

We've recently, earlier in the year, increased our tariff or the charges we charge the system for handling the grain. So our income stream has increased in that sense. The competition out there, prior to rationalization of facilities continues to be pretty intense.

We're not setting up a business plan here on driving the top line growth in terms of margins. But simply a matter of growing sales and cutting costs.

Q: If I could just ask you a follow-up question, and just having followed the company for a number of years here, on the announcement of the original consolidation program. I guess forgive me if I characterize it as like, "there's always another shoe dropping", and I was just wondering when do you think you're going to be as consolidated as you can afford to be?

Schmidt: Well, that's a good point. And I think the important thing to note here is that not only upon my arrival at the end of January, so really in February and March, we begin to add the new management team. I believe the date on the first restructuring was March 7th, and as you recall having only been here approximately 40 days, that's moving pretty aggressively.

But simply my background and understanding of the business and the system here, along with the expertise that existed on staff here, gave us the capability of taking that immediate action, which is why we're going to recoup some of those dollars earlier. And of course we did a post audit review and business analysis around all of the businesses which related to the provisions and restructuring charges whether it was Gdansk, Matrix and Agro-Pacific and a number of other initiatives.

So I think it's important to note we are a company with $3.5 billion in sales, and over 20 operating companies, in a diverse nature. It's a very complex business. And to be able to move that quickly is a testament to the understanding people here have of the business.

As far as further restructuring consolidations, I think we're very close if not done. I think there'll be some adjustments if the market conditions change. And I can also tell you that we will continue to do a four wall analysis around each business, that each business will stand alone, relative to their performance. And we will not subsidize any businesses going forward. And I think it's important to note from the last restructuring as mentioned, there will be a charge in the next quarter.

Q: Thank you very much.

Schmidt: You're welcome.

Q: Thank you and good morning. A couple of questions. First of all, in the Agri-products segment you noted in the quarterly report that part of the improvements is attributable to producers perhaps buying in advance of anticipated price increases. Any idea of how much of that sort of spring demand may have been bought in this recent quarter?

Hill: It's Will Hill here. We're not adjusting our final estimate for total fertilizer sales. In general terms, what is bought in the fall normally comes out of the spring fertilizer to be bought. In terms of a percentage number, I don't have any hard numbers as to what that would be anticipated.

Q: Okay, but so, sales were better than last years abnormally low levels, but not so striking as in oh my god we're really going to get hit in the first quarter, because this is just way out line for what normally happens?

Hill: No, I wouldn't think that we're in a situation where we would have a substantially lower spring season.

Q: Okay, that's great. And just a second item, second question rather, sort of a bigger picture sort of issue. Mayo, towards the end of your prepared results, you mentioned three areas of focus for your business operations. Are we to conclude that anything that you didn't mention is therefore non-core?

Schmidt: That's a good question. What we've really done is a business analysis and even post audit reviews on a substantial number of businesses. Certainly as we look forward, we consider – as you might imagine with the capital expenditure program we had in this organization – (Project Horizon and Agri-products) and then the further consolidation of our grain assets, that to be core to our business.

I think it's also important to mention that a number of other businesses whether it be CanAmera who buys over one million tonnes of canola for the crush and refining every year, adds a certain financial dimension to our organization. But fundamentally grain, livestock, Agri-products and businesses with the synergies are really our core businesses and we will be moving on a divestiture program, and we'll be able to announce that when in fact those things come to fruition. So you'll certainly expect announcements in the near future.

Q: Okay. Thank you very much.

Schmidt: You're welcome.

Vancha: Thank you very much for your participation today. We look forward to speaking to you again.