Saskatchewan Wheat Pool

3rd Quarter Investor Conference Call – 3:00 p.m. June 12, 2001

**Colleen Vancha:** Good Afternoon Ladies and Gentlemen. Thank you for joining our 3rd Quarter conference call today. We have approximately 45 minutes for today's call so we will keep opening comments to about 10 minutes to allow ample time for questions. The quarterly report and supplementary information is available on the financial page of our web site at www.swp.com. Please review this information, if you have not already done so, in conjunction with the information presented in today's call.

To begin I'll ask Mr. Michael McCord, our Chief Financial Officer, to provide an overview of results. Mayo Schmidt, our Chief Executive Officer will conclude management's presentation with a summation of operational achievements and a look forward. We will then open the call to questions.

**Michael McCord**: Thank you, Colleen. Good Afternoon, Ladies and Gentlemen.

To highlight the operational results for the period,

- Consolidated sales and operating revenue for the 3-month period were $683 million compared to $730 million in the third quarter of last year. Year to date sales were $2.3 billion, slightly ahead of last year.

- The decline in third quarter sales was due to lower grain volumes in the primary system and lower agri-product sales. All other segments posted higher sales in the third quarter.

- Grain volumes were down in the primary system year-over-year to 5.7 million tonnes for the following reasons:

    1. The Canadian Wheat Board's export program was behind last year, particularly in wheat and as a result we've seen heightened competition for Board grains,
    2. The Canadian Wheat Board's tendering process has not yet been resolved, and
    3. Our closure program, which was virtually complete at the end of January, has had a temporary impact on volumes.

- In addition, Agri-product sales were delayed this spring due to weather conditions.

Despite these issues, gross margins were up 32% on a year-to-date basis to $148.3 million.  All five segments posted higher gross margins led by grain and livestock.

To update you on our restructuring initiatives announced during the last calendar year, the Pool has eliminated $15 million in costs in our first nine months and we are on track to meet our target of $21 million expense reductions this year. The reductions have primarily occurred in grain, agri-products and corporate.

**From an earnings perspective…**

EBITDA for the 3rd quarter is $25.4 million and year to date is $77 million, a year over year improvement of $48.5 million.

The grain handling and marketing segment posted EBITDA of $29.1 million in the first nine months of this year, an $18.7 million increase year over year. Not only did we achieve lower costs, improved operational efficiencies, and enhanced risk management practices…, better margins on barley and special crops had a positive impact on EBITDA for the period.

- Improved results from the Pool's wholly owned port terminal operations were driven by a 22% increase in volumes through Vancouver. Thunder Bay partially offset this improvement with volumes down 13.8%. This was a direct result of a 1 million tonne reduction of Wheat Board wheat and durum shipments through eastern ports.

- The Agri-Products segment posted stronger results as well, achieving $9.3 million in EBITDA for the first nine-months compared to only $2.3 million last year. Despite a late spring, higher volumes and margins at WCFL and lower costs in the Pool's agri-products retail operations improved results.

- Agri-Food Processing generated $33 million in EBITDA for the first nine-months, an increase of $11.2 million. Can-Oat Milling recorded significant improvements over last year by increasing margins. This was achieved through operational improvements and by shifting to a higher margin product mix.

- CanAmera and CSP results were stronger year over year, but their results did taper off in the quarter. Segment results also reflect the Pool's share of

Premium Brands' sale of its Red Deer Plant. Our portion of the gain, which was approximately 41%, was offset somewhat by our share of costs associated with a strike at their Vancouver operation.

- The Livestock Production and Marketing segment doubled EBITDA to $16.5 million in the first nine months. Heartland Pork marketed 254,000 finished hogs so far this year, twice the volume of last year.

- The Feed business benefited from increased demand. Drought conditions, particularly in Alberta, increased the demand for feed.

- And the livestock division managed 734,000 head of cattle, up slightly from a year ago. However, EBITDA from that unit decreased slightly year over year due to increased operating costs.

- And finally we saw a $500,000 improvement in EBITDA from the Western Producer.

To summarize the corporate results, then …

Before provisions, EBIT was $19.6 million on a year to date basis. This compares to a loss of $24.9 million last year.

- Interest costs for the quarter were $15.3 million bringing the nine-month total to $47.6 million, an increase of $14.8 million year over year. Higher borrowing costs and less interest being capitalized this year were the primary reasons for the increase.

- Securitization costs for the quarter were $9.6 million. Included is $7.4 million in one-time costs associated with setting up our new securitization program.

**Loss**

- The Pool recorded a consolidated loss of $0.28 cents per share for the quarter or $10.4 million. This compares to an $18.9 million loss prior to provisions for the third quarter last year.

- For the nine-month period, the net loss after provisions was $36.0 million versus a $65.6 million loss last year.

In summary, I am very pleased with the operational improvements that have been achieved over the last nine months. Our focus going forward is to execute on our commitment to strengthen our balance sheet.

Let's now move to our cash flow section.

Cash flow from operations was $3.8 million or $0.10 per share for the nine-months. This compares to negative cash flow of $7.1 million last year after excluding the impact of tax recoveries recorded in Fiscal 2000 – thus a $10.9 million improvement.

Free cash flow to the end of the third quarter is negative – reflecting the seasonal nature of this business. However, we do expect to be in a positive free cash flow by year-end.

Our objectives as we move into fiscal 2002 will be to continue strengthening our operational performance and to focus capital spending on essential repairs and maintenance – which will generate stronger cash flow.

**Looking at the balance sheet….**

New credit facilities of $557.5 million are now in place and are reflected in this quarter's financial statements. We also finalized a $325 million securitization program to finance trade receivables. Additional information on these funding arrangements is available in the Notes to the Financial Statements.

The Pool's debt to equity ratio was 62:38 up slightly from 61:39 last year. The Pool expects its debt to equity ratio to improve over the life of the new credit facilities as management focuses on its debt reduction strategy.

Working capital on April 30, was $57 million, slightly better than the same period last year. The current ratio was 1.11 compared to last year's 1.08.

That concludes my summary. I'll turn the discussion over to Mayo Schmidt our Chief Executive Officer.

**Mayo Schmidt:**

Thank you Mike.  Good afternoon ladies and gentlemen.  Before I highlight our operational improvements for the quarter, I would like to provide some additional detail on our divestiture strategy.

For the past number of months, we have talked to you about our renewed focus on our core operations of grain and agri-products.  This quarter we have seen the results of our actions and they are very positive.

We have also advised shareholders that we have undertaken a divestiture strategy targeted at businesses that are not a strategic fit with the Pool over the long term. Our Board of Directors has endorsed the business plan and the divestiture component is well underway.  We have engaged an investment firm to assist in the marketing program.  We have completed our review and identified the list of assets for divestiture. And we are currently considering a number of offers.

The first major transaction under the program was announced on May 16$^{th}$.  The Pool signed a share purchase agreement to sell its 3.4 million shares in Premium Brands, which represented our 41% ownership in that company.   Proceeds of $46.3 million are expected.

The transaction is proceeding and current expectations are for closing to occur by July 31.   The Pool will record a provision of approximately $20 million against 4$^{th}$ quarter earnings and proceeds from the sale will be applied against our debt.  We also intend to finalize a three-year consulting contract with Premium Brands that will generate $1 million in operating income in each of the following three years.

Execution of our business plan and divestiture strategy are key to our debt reduction objective. The media has been anxious about additional divestitures and various rumors about assets sales have been reported. However, we do not respond to rumors and can not comment on potential asset sales until such time as we have definitive agreements in place.

Turning our attention to operations for a moment,

As Mike highlighted, our core grain operations are producing significant cost savings and we are pleased with the progress we've made to date.

We continue to capitalize on our multi-car loading capabilities. We received incentives on 78% of our shipments for the first nine months, exceeding our target of 75% for the period. Of total shipments, 57% were in 50 or 100 car-loads, which command higher incentives. This compared to only 36% for the same period last year.

While we saw Board grains decline over the period, our non-Board program was extremely strong, 18% ahead of last year. In addition to better canola volumes, the Pool's special crops business increased by 60%. Over the past year, we significantly strengthened our specialty crops expertise in anticipation of the growth in the industry as producers diversify their crop mix. We intend to capitalize on our leading market share position in this industry and grow the business further.

From the customer perspective, we have seen good demand for high quality milling wheat into the U.S. market. The Pool is one of the top performers in Canada from a quality standpoint and we have exceeded the industry standards in meeting the quality specs of those end-users. This bodes well for future sales into the U.S. milling market.

Our grain grading processes are the first in western Canada to be certified to ISO standards and the Pool is now recognized as a leader in quality control in western Canada.

From an earnings perspective, Both our grain and livestock businesses have generated more EBITDA in the first nine months of this year, than was generated in all of fiscal 2000. Those results speak for themselves.

And we have seen strong improvements from many of our other value-added operations like Can-Oat Milling.

These are the areas we said we would focus on and we are executing to plan. We are pleased with our operational improvements but we recognize additional opportunities exist to improve efficiency, reduce costs and most importantly increase earnings. These objectives therefore are ongoing objectives and we will continue to challenge our management team in each of these areas.

Looking forward to the remainder of the year:

- **In the grain segment,** volumes through the primary system will likely remain below last year's levels. We do not believe we will make up the shortfall from the first nine months given the slower than expected Wheat Board program. Originally, the Canadian Wheat Board predicted similar export volumes to last year. With only weeks left in this crop year, the Pool expects the Board will fall short of that target.

- Volumes through our wholly owned port terminals are expected to be better than last year in total. Improvements through Vancouver will more than offset the declines at Thunder Bay, which is goods news given it is our most profitable port. Our pipeline management concept, together with better risk management and operational practices in our grain business should result in significantly higher operating earnings from the grain business this year.

- **In the Agri-products segment,** despite recent rains, the dry weather that has hampered soil conditions may impact crop protection sales over the next several weeks. However, lower costs and increased efficiency at our retail locations will offset some of this impact on earnings. Additionally, WCFL's strong contribution this year is expected to continue through the remainder of the year.

- **In the Agri-food segment,** we expect Can-Oat to continue to strengthen. CanAmera, the largest contributor to this segment's results, expects weaker fourth quarter performance due to a decline in canola crushing volumes and margins and an increase in world oil stocks. However, on an annual basis we still expect better results this year driven by their strong performance in the first six months. CSP Food is also expected to exceed its contribution of last year.

**In the Livestock segment, expectations have not changed**

- Heartland Pork will be at full production this year and we expect stronger results for both the pork production and feed businesses as a result.
- We expect the cattle business to remain steady.

Overall we continue to expect a profitable fourth quarter. EBITDA is expected to exceed last year, although risks in the grain and agri-products business could impact the extent of the improvement.

Looking out to next year we will continue to focus on debt reduction and gross margin improvements. We will manage the pipeline to improve the profitability of our core business. We look forward to participating in the Canadian Wheat Board tendering process and on developing new alliances to drive volumes through our system. We have initiated a customer contact strategy to strengthen customer relationships and we will maintain our commitment to cost control and efficiency gains.

We will continue to focus on improving operating earnings in fiscal 2002. A black bottom line next year depends upon the timing and success of our divestiture initiative. However, I can assure you that it is clearly our goal and we will continue to aggressively manage this business to reach that goal as soon as is reasonably possible.

I appreciate your interest in Saskatchewan Wheat Pool and look forward to continuing to work on your behalf. Thank you for your attention.

Will Hill, head of the grain and agri-products businesses, and Richard Klassen who is responsible for the Food and Industrial Group are also available to take your questions.

**Question and Answer Period.**

**Colleen Vancha: Conclusion:** Thank you very much for your participation today. This call has been recorded and can be accessed by dialling 416-695-9728. The playback feature is available until Friday June 15. Again, thank you for your interest in Saskatchewan Wheat Pool.