

Risk Management

This area includes:

- risk management process
- risk factors
- risk based capital allocation
- investment approach
- treasury activities.

Risk management is undertaken by AWB personnel, both on behalf of growers who deliver wheat to the AWB National Pool and also for the company itself whilst undertaking its operational business activities. Risk compliance within the company is monitored and reported upon by the Corporate Risk Unit.

Risk management process

AWB recognises the need to effectively manage risk and as such has put in place a rigorous system to identify, monitor, manage and report on risk. The Chief Risk Officer facilitates risk monitoring and compliance, however, each business unit manager is responsible for undertaking risk management activity. The Corporate Risk Unit has responsibility for market risk monitoring and compliance, internal audit, AWB's insurance program, the operation and maintenance of the enterprise-wide risk system and corporate financial risk analysis as required. There is a clear separation of

duties between operational risk management units that execute risk strategies and the monitoring and reporting of risk.

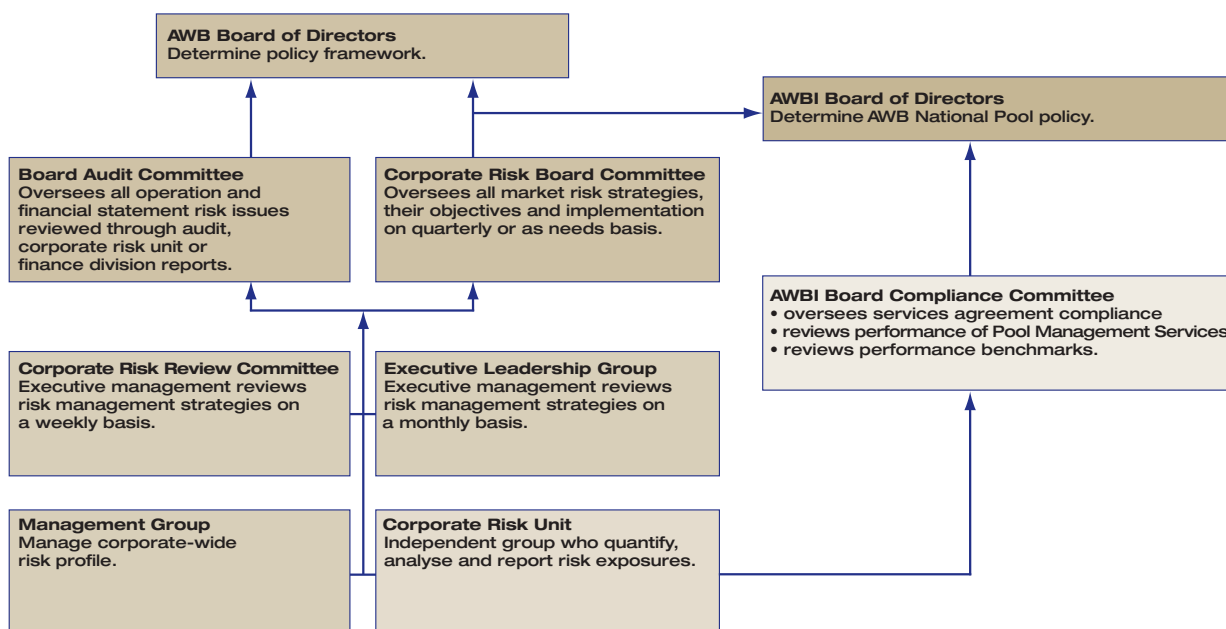
Oversight of AWB risk activities ensuring compliance with Board policies and delegations is undertaken by the Board of Directors using two Board Committees, namely the Corporate Risk Board Committee and the Board Audit Committee. The charters for these committees dictate that all market risk (including commodity price, currency, interest rate and credit risk) matters are presided over by the Corporate Risk Board Committee and all other operational risk and financial reporting matters are overseen by the Board Audit Committee.

An executive and senior management risk committee meets weekly to review the formulation of risk management strategies, monitor compliance with delegated authorities, and provide a forum to raise operational issues impacting the business.

In addition to the above, AWBI also has a Board Compliance Committee to provide a mechanism to ensure that any dealing that AWBI has with its parent and subsidiaries of AWB are not in conflict with the objectives of AWBI as operator of the AWB National Pool.

The formal corporate risk management reporting framework is depicted on the following page.

Corporate risk management reporting framework



Risk factors

Specific risks that affect AWB include:

Crop size

Crop size is impacted by environmental factors, including weather conditions, beyond AWB's control. Crop size will affect the total value of the grain acquired, marketed, financed or traded through AWB products and services, and consequently the revenue derived from AWB's operations.

Seasonal conditions and competition

Landmark engages in wholesale and retail merchandising activity, livestock exporting, wool broking and trading, real estate sales, financial services (lending and insurance), fertiliser sales and general distribution activity. Revenue streams in all these businesses are at risk to seasonal conditions, and in particular drought.

Competition

By virtue of operating in a diverse agronomic field, Landmark is continually pressed by competition impacting on margin returns. In order to mitigate that risk, Landmark's network is constantly managed through owned premises, franchise as well as member and agent arrangements to ensure an optimal balance of products and services (including agronomic advice) to customers. Inventory purchasing and management are also tightly controlled to avoid holding large amounts of obsolete stock.

International and domestic value of grain

This is affected by factors such as supply and demand, competition, foreign exchange rates and government influences (such as United States and European Union farm support policies). These factors have the ability to impact AWB's underwriting exposures, revenues and the profitability of its products. This risk can also affect returns to growers in the AWB National Pool.

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Market

AWB operates in an industry where profitability can be significantly affected by market risk factors. AWB recognises the need to effectively manage this and has put in place a comprehensive system to identify, monitor, manage and report on market risk (including basis risk, foreign exchange risk, interest rate risk, credit risk and other market risks). Market risk reports are generated for both AWB National Pool and AWB exposures. Newly acquired market risk exposures relate to the AUD's impact on domestic and international sales values and demand for Landmark's livestock and wool businesses.

Summary of risk factors

Grower risk	AWB risk	
AWB National Pool	Financing	Principal trading/Other
<ul style="list-style-type: none"> • Final net pool returns <ul style="list-style-type: none"> - final sale price - foreign exchange - supply chain logistics • Credit risk management outcomes • Chartering and quality assurance costs 	<ul style="list-style-type: none"> • Underwriting risk if pool returns falls below guaranteed return • Size of pool impacts revenue derived from products and services • Incentive in pool management fees • Margin on loans to growers and Landmark customers • Capital management • Underwriting fees • Fees from Basis Pool contracts 	<ul style="list-style-type: none"> • Principal positions in wheat, other grains and wool • MultiV and fixed grade grain contracts • Landmark network management • Inventory control • Credit risk management • Trade execution management • Grain centres management • RiskAssist advisory services

Risk based capital allocation

In return for shares in the corporatised AWB, Australian wheat growers gave up their rights to the funds contributed to the Wheat Industry Fund, which had grown to in excess of AUD600 million in 1999. These funds, which had been expanded by earnings from domestic trading and treasury activities, were supplemented by an additional AUD100 million which was raised from *B class* shares issued when AWB listed on the ASX in August 2001.

During 2003, AWB made two important changes to its risk capital profile. Firstly, it established a split rating for the company in order to:

- lower and maintain on a least cost basis the funding and underwriting business for the benefit of AWB National Pool participants, making that businesses risk rating impervious to any possible downgrade as a result of anticipated increased commercial activity of AWB as a whole
- expanding the scope for development of commercial business activities funded by debt
- determining more precisely the required amount of risk capital support AWB needed to allocate for AWB National Pool related activities.

Secondly, AWB purchased Landmark from Wesfarmers Limited. This utilised capital of AUD702 million, and in order to facilitate the purchase AWB engaged in a direct Institutional Share Placement, a Share Purchase Plan to existing shareholders and also a Dividend Reinvestment Plan.

The total equity of AWB, now in excess of AUD1,025 million, underpins AWB's continuing development strategy of diversification throughout the entire agricultural services sector, adding to its grain value chain activities of investment in supply chain assets and exploration of grain processing activities. AWB continues to earn income by the prudent

allocation of its capital to supporting pool management, financial lending and commodity trading activities in the interests of its pool participants and shareholders. To ensure AWB's use of capital provides both a reasonable return for shareholders whilst maintaining a focus on its pool participants, AWB has adopted a dynamic capital management strategy.

The focus of this strategy is to:

- maintain and improve its current credit rating and liquidity funding for the provision of grower loans and related financial products and funded Landmark operations
- ensure shareholders and equity markets of a commercial approach to investment and diversification
- apply "at risk" methodology, for example, cash flow, earnings, or value, to correctly assess the likely impact on corporate performance, to allocate risk capital to business divisions and aid in selection of mitigation strategies.

The benefits of this strategy are:

- more focused revenue stream risk/reward performance measurement
- allocation of risk capital to businesses allows for development of strategies to optimise those allocations
- allows diverse divisional performances to be directly comparable
- permits further development of capital management strategy and focus on corporate-wide risk diversification.

Risk Management

Investment approach

The investment approach process for new investments analysis is managed by the Corporate Development Division, utilising teams made up of specialist staff accessed from the business, as well as external advisers used on an as needs basis. The broad approach to AWB’s investment analysis is indicated below:

Approach to Investment Valuation	Potential Investment - Screening Test
<p>A formal economic evaluation is undertaken:</p> <ul style="list-style-type: none"> • Net present value (discounted cash flow) <ul style="list-style-type: none"> - Internal rate of return - Payback period - Accounting rate of return • Capital Asset Pricing Model is used to quantify risk • Evaluation against performance Hurdles. 	<p>Every investment opportunity is subject to a series of screening tests such as:</p> <ul style="list-style-type: none"> • fit growth strategy • understand the risk/reward trade off • first class partners (credible and have proven track record) • transparent business process • broadly meets investment guidelines • within capabilities and capacity to manage and integrate.

Treasury activities

The AWB Treasury Division (“Treasury”) has sole responsibility for conducting the funding and foreign exchange activities of the AWB Group. The primary objectives of Treasury are to provide low cost funding for the businesses of the AWB Group, including provision of loans to growers who deliver wheat to the AWB National Pool and the overall management of foreign currency and interest rate exposures arising from the AWB Group’s operations.

Ring-fencing

On 1 October 2003, the AWB Group successfully “ring-fenced” its wheat export related operations from its commercial activities. In doing so, the AWB Group was able to achieve the highest possible short term ratings available for AWB Harvest Finance Limited (“AWB Harvest Finance”), being A-1+ from Standard & Poor’s and P-1 from Moody’s Investors Service. Standard & Poor’s also assigned a long term rating of AA- to AWB Harvest Finance.

AWB Harvest Finance commenced operations on 1 October 2003, replacing AWB Finance Limited. In addition to providing growers delivering into the AWB National Pool, with a suite of financing alternatives, it has sole responsibility for the funding and treasury activities of the wheat export related business of the AWB Group.

AWB Commercial Funding Limited (“AWB Commercial Funding”) was established to provide treasury and funding operations for the commercial subsidiaries of the AWB Group. Standard & Poor’s assessed the credit standing of the commercial side of the AWB Group, whereby the parent company, AWB, was assigned a BBB stable outlook rating. AWB Commercial Funding has the benefit of a full guarantee from AWB.

Funding

As the borrower for the finance and wheat export related activities of the AWB Group, AWB Harvest Finance has significant borrowing requirements.

The volume and duration of its borrowing requirements are largely determined by the size of the wheat crop, timing of both wheat delivery and sales, and the financing options selected by growers. AWB Harvest Finance is able to issue debt instruments through either the global or domestic capital markets via any one or a combination of the following borrowing programs:

- AUD2 billion Domestic Electronic Promissory Note Program
- USD1.5 billion United States Commercial Paper Program
- USD1.5 billion Euro Commercial Paper Program
- AUD500 million Domestic Medium Term Note Program.

Liquidity support for AWB Harvest Finance is provided through committed standby liquidity facilities with a panel of banks, in accordance with the AWB Group's relationship banking strategy.

AWB Commercial Funding sources funds for the commercial activities of the AWB Group, through a committed AUD950 million Syndicated Multi Option Facility provided by five relationship banks. This facility provides both cash advances and bank guarantees and was instrumental in financing the acquisition of the Landmark business.

The recently acquired Landmark business included a substantial retail deposit book. Proceeds of this book are used to fund the commercial operations of the AWB Group.

Risk management

A significant component of Treasury's role is the management of the very large and significant foreign currency exposure of the AWB National Pool. As the majority of the export wheat sales and other grains are denominated in USD, and growers are paid in AUD, the AWB Group is primarily exposed to the effects of movements in the AUD/USD exchange rate.

Additionally, risks faced by the AWB Group relate to the underwriting activities associated with the provision of finance to growers delivering wheat to the AWB National Pool.

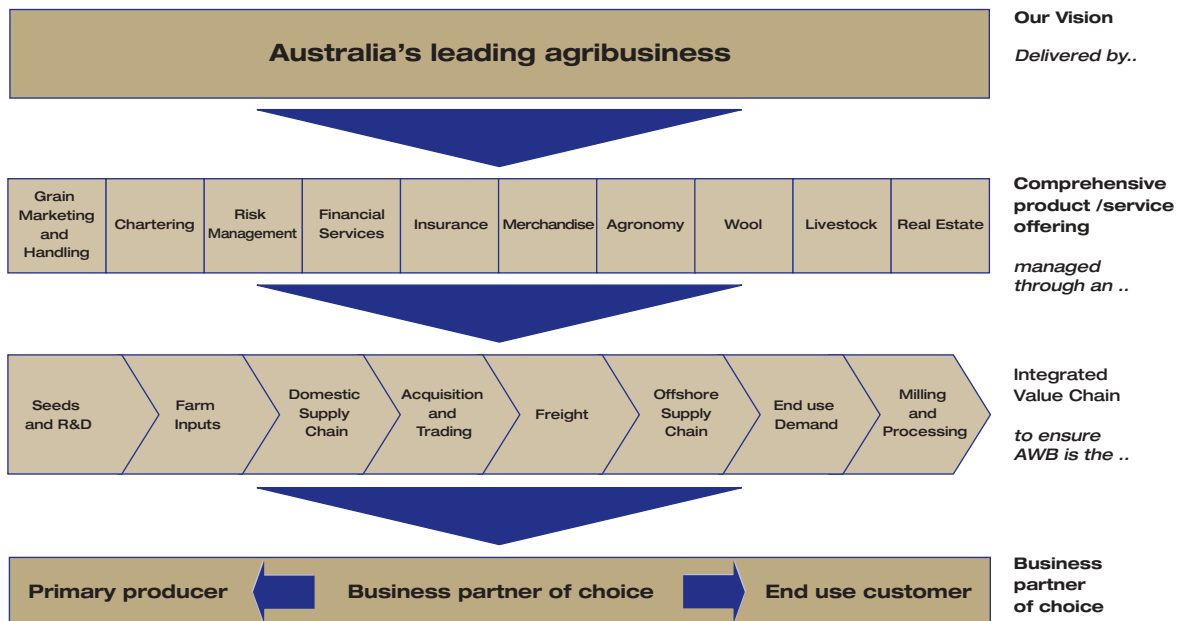
AWB Harvest Finance and AWB Commercial Funding are authorised to utilise various hedging instruments to manage risk associated with the AWB Group's operations against the effects of interest rate, foreign exchange and price fluctuations. These include the use of over-the-counter swaps and options, spot and forward agreements, exchange traded futures contracts and options on futures contracts. Lowering funding costs and prudently investing sales proceeds received, pending distributions to growers, are also a part of the Treasury operation.

Vision

The AWB Group vision is to be Australia’s leading agribusiness.

Mission

The AWB Group vision is to be both the primary producers’ and end-use consumers’ business partner of choice.



Strategic objectives

AWB has three dominant strategic objectives.

They are:

- Sustainable grains business
- Leading position in Australian rural services
- Leading financial services and insurance provider.

Sustainable grains business

AWB continues to deliver on its mandates to manage the Single Desk system effectively, maximising returns to growers and generating a commercial return for its shareholders.

AWB is dedicated to maintaining and growing its grains business and continuing to market Australian wheat and other grains domestically and to overseas markets.

Following the acquisition of Landmark, AWB’s grain marketers have been integrated within the Landmark network. This is a deliberate move on behalf of the AWB Group to create the platform from which bundled product offerings can be offered to growers and other primary producers.

AWB is also committed to reducing costs and improving services to producers by increasing competition and efficiencies in the grain supply chain.

AWB will continue to pursue opportunities to secure end user demand for Australian wheat by improving its product and services offering, and the value proposition for AWB customers.

Leading position in Australian rural services

AWB has achieved one of its core strategies to pursue sensible and rational diversification of its revenue streams by the acquisition of Landmark. As a result of this acquisition, AWB is now strategically focused on being the leading Australian rural services provider to all primary producers across Australia.

With the addition of six new agribusiness activity streams (term and seasonal finance, insurance, wool, livestock, real estate and merchandise) AWB can now, more than ever, leverage its world leading expertise in grain marketing and risk management, and its established global sales customer base to deliver the best possible returns to both primary producers and end use customers.

AWB will continue to build on its strong relationship with growers and customers, to provide an extensive and unique one stop shop of rural and financial services and commodity management.

Leading financial services and insurance provider

AWB is also centrally concerned with becoming the business partner of choice for primary producers' finance and insurance needs. Specifically, AWB's strategy revolves around being able to provide producers with a full product suite with competitive pricing via a network of high performance, skilled rural finance managers.

AWB is in a unique position to become a leading provider of financial services and products given its existing core capability on harvest finance, along with the newly acquired Landmark deposit and lending businesses.

AWB is also focusing on being able to grow the Landmark insurance business through product innovation and cross sell opportunities.