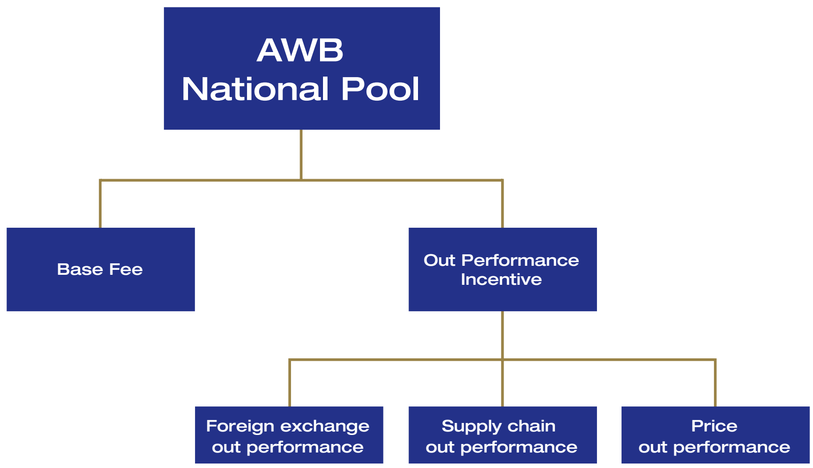
Pool Management Services



AWB provides pool management services to AWBI to operate and manage the AWB National Pool. The AWB National Pool has a "pool life" of around 18 months following harvest and therefore extends beyond the immediate financial year.

Services provided by AWB to AWBI

International sales and marketing:
- customer management and development
- market analysis and segmentation
- international supply and demand analysis
- price discovery, price realisation and sales execution
- technical training to international customers
- market development and promotion.

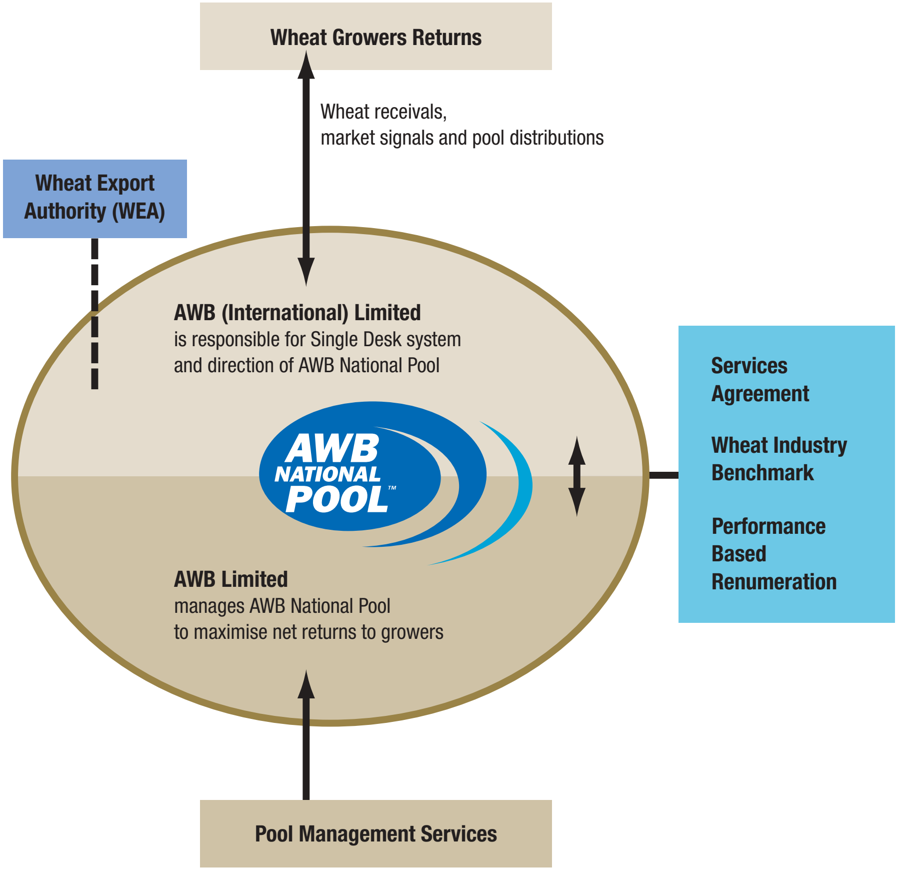
Risk management services:
- foreign exchange management
- commodity price management
- liquidity and credit management
- position management and equity distribution
- Pool allocations, modelling and accounting for regular and more accurate estimated pool returns.

Grower services:
- grain acquisition and grower payments
- stakeholder relations and business management
- regional office network and grower services centre
- customer management and marketing
- sales management and execution.

Wheat supply chain management:
- wheat quality assurance and product integrity
- grain accumulation on-farm to international customer delivery
- logistics management, storage and handling
- road and rail transportation and sea freight and chartering
- negotiation with service providers to establish least cost pathway.

Research and development:
- crop shaping, varietal selection, classification and receival standards
- understanding customer processing and end use requirements
- ensuring that Australia's wheat growers produce and supply appropriate wheat quality characteristics to match existing needs and exploit emerging opportunities to secure demand.

The constitutions of both AWB and AWBI require that the business of AWBI is managed with the objective of maximising net returns for growers who deliver wheat into the AWB National Pool.



Performance based remuneration

The AWBI Board of Directors established and introduced a performance based remuneration system in October 2001 that directly links remuneration to AWB with Gross Pool Value ("GPV") and quantifies risk exposure to both AWB and AWBI. A definition of GPV is featured in the Base Fee calculation table on page 9. This system provides incentive to AWB as the manager of the AWB National Pool to achieve the objective of maximising net pool returns for growers who deliver wheat into the AWB National Pool. This performance based remuneration has a two tiered formula consisting of:

- **Base Fee** calculated as 1.5% of GPV, subject to a cap of AUD60 million and a floor of AUD45 million (CPI indexed from the 2000-01 AWB National Pool)
- **Out Performance Incentive** ("OPI") calculated as 20% of the GPV achieved, over and above a specified benchmark plus a Hurdle. The OPI is capped at 1.5% of GPV.

The Wheat Industry Benchmark ("WIB") and Hurdle are discussed on page 10 and 11. The remuneration structure provides an incentive to AWB to efficiently allocate resources to maximise net pool returns, and provides incentive to invest further resources to create and capture greater value for AWB National Pool participants.

Base Fee

The Base Fee is similar to fees paid to asset managers who are paid a percentage of the value of assets under management in order to maximise asset value. AWB, as the manager, determines the most effective level of expenditure and investment required to achieve maximum net pool returns for AWB National Pool participants.

The cap and floor on the Base Fee are intended to reduce volatility that could be experienced by either party in years of very high or low GPV. The cap and floor were set for the 2000-01 AWB National Pool and are CPI indexed for each subsequent pool. GPV is defined as follows, including an indicative example of how remuneration could be approximated.

Base Fee calculation – EXAMPLE only

GPV definition	• Sum of: – FOB revenue for all sales of AWB National Pool wheat, converted to Australian dollars ("FOB" meaning "free on board", after deducting costs incurred beyond the point of export, such as sea freight) – Plus other value added by AWB (eg through hedging, stock swapping and blending income) – Plus interest income – Less costs incurred for the benefit of all pool participants nationally (such as AWB's management fees, quality testing and sampling) but not including costs which are pooled and shared on a regional basis (eg storage, handling and domestic freight and fobbing costs). • Essentially, it represents the FOB pool return to growers prior to domestic storage, handling, rail and fobbing deductions. • Risk is limited by a cap and floor. The primary risks to GPV include crop size, world USD wheat prices and USD/AUD exchange rate.	
GPV calculation	Forecast of net wheat exports AWB Estimated Pool Return (using midpoint of APW and ASW wheat grades to estimate approximate average value in AUD) **Estimate of GPV**	= 15.0 million tonnes = AUD240 per tonne FOB GST exclusive **= AUD3.6 billion**
Base Fee	1.5% of GPV Cap or floor not triggered, therefore	 **= AUD54 million**

Out Performance Incentive

AWBI will pay AWB an OPI if it achieves a GPV, which out performs the WIB discussed below plus a Hurdle.

Out Performance Incentive calculation – EXAMPLE ONLY

OPI	20% of the GPV over and above the WIB plus Hurdle. (GPV – (WIB plus Hurdle)) x 20%	
Hurdle	The Hurdle rate is expressed in USD per tonne. The Hurdle rate reflects any added advantage AWB may have in the inherent premium for being the sole supplier of bulk Australian wheat. The absolute Hurdle is calculated by multiplying the Hurdle rate by participating pool tonnes divided by the actual foreign exchange rate achieved.	
OPI cap	1.5% of GPV	
Risk assessment	OPI is 100% subject to out performing the WIB plus Hurdle. The ability to out perform the WIB and Hurdle are impacted by the following primary risks: • USD wheat prices – ability to out perform international competition • foreign exchange – ability to out perform with historically low exchange rates • supply chain – ability to out perform benchmark.	
OPI forecast	OPI is inherently difficult to forecast because the WIB is retrospective in nature. Therefore, this requires both a forecast of benchmark behaviour as well as forecasting actual pool returns.	
Total forecast remuneration (pool life)	Base Fee OPI (assuming 1% of GPV) Less pool management costs (100% of AUD53 million) **Pool Management Services EBIT for pool life** ** For information on percentage of revenue recognised for accounting purposes refer to "Remuneration recognition" schedule on page 12.*	AUD54 million AUD36 million (AUD53 million) **AUD37 million**
Cap	Not triggered	

Wheat Industry Benchmark

The WIB is a comprehensive, rigorous benchmark that objectively measures the performance of the AWB National Pool. The WIB incorporates fundamental pricing principles and acts as a competing manager under prescribed AWBI Board policies and procedures. It assesses the primary revenues, costs and risk parameters that impact the AWB National Pool value and ultimate returns. It effectively replicates the pool model, in managing wheat exports with prescribed physical and risk management constraints, to achieve a benchmark pool value.

The WIB is constructed from the three sub benchmarks detailed on the following page.

1. USD wheat price sub benchmark

The model compares actual USD prices achieved for the AWB National Pool relative to a USD price achievable using a basket of comparable United States and other international wheat grades. The benchmark basket has been determined utilising regression analysis of historical AWB National Pool contract prices relative to prices over the same period from transparent international markets.

These wheat prices include United States wheat grades from the Pacific North West and Gulf regions, such as Dark Northern Spring 13, Hard Red Winter 13, Hard Red Winter 12, and Soft Red Winter, as well as Argentine, French and German wheat grades.

A key feature of the wheat price sub benchmark is that it reflects the hedge policy guidelines and risk parameters as determined by the AWBI Board of Directors. However, the methodology of the sub benchmark also allows an assessment of actual commodity hedge returns from participation on the United States futures market in Chicago, Kansas and Minneapolis relative to a benchmark commodity hedge program in those same markets.

2. Foreign exchange (AUD/USD) sub benchmark

The model is based on foreign exchange policy guidelines and risk parameters as determined by the AWBI Board of Directors. The main elements of the sub benchmark are:

- options which protect against currency rises, while preserving the ability to capture downside currency gains. The benchmark also attempts to minimise the level of the premium expended
- it consists of five option tranches, priced during the “pool life” to reflect the confidence of USD exposures
- it is transparent and encourages active management within prudent risk tolerances.

3. Supply chain sub benchmark

Supply chain costs represent a significant cost to Australian growers. The WIB incorporates a supply chain index, which reflects average costs across the various elements of the supply chain. This index and AWB’s actual supply chain costs are standardised for crop size and other factors outside the control of the pool manager. AWB's performance against the index is compared to determine the value added to grower returns through lower supply chain costs.

Hurdle

A Hurdle is incorporated in the formula for calculating the OPI. The Hurdle is a USD rate per tonne, which represents the inherent value of the Single Desk system and a freight advantage relative to competing suppliers.

The respective AWB and AWBI Boards of Directors negotiated a set Hurdle rate of USD5 per tonne in 2001. The Hurdle rate of USD5 per tonne is rigorous and demanding. Capturing 100% of freight and Single Desk premiums is not always achievable in a competitive, heavily subsidised and distorted world market. AWB has effectively contributed in the past to building the inherent value of the Single Desk system. The respective AWB and AWBI Boards of Directors review the Hurdle annually.

Remuneration recognition

The performance based remuneration has been constructed allowing for progressive tranche payments. Given the retrospective nature of the WIB upon finalisation of the AWB National Pool (i.e. final distribution of all payments to pool participants), and the fact that most pools have a life of around 18 months from harvest, remuneration will be recognised progressively until pool finalisation.

This can be depicted as follows:

<table>
<tr><th colspan="9">Remuneration recognition schedule</th></tr>
<tr><th></th><th></th><th>March 2003</th><th>September 2003</th><th>March 2004</th><th>September 2004</th><th>March 2005</th><th>September 2005</th><th>March 2006</th></tr>
<tr><td rowspan="3">2002-03</td><td>Base Fee</td><td>60%</td><td>30%</td><td>10%</td><td></td><td></td><td></td><td></td></tr>
<tr><td>OPI</td><td></td><td>80%</td><td>20%</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Admin costs</td><td colspan="2">100%</td><td colspan="2"></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">2003-04</td><td>Base Fee</td><td></td><td></td><td>45%</td><td>45%</td><td>10%</td><td></td><td></td></tr>
<tr><td>OPI</td><td></td><td></td><td></td><td>80%</td><td>20%</td><td></td><td></td></tr>
<tr><td>Admin costs</td><td colspan="2"></td><td colspan="2">100%</td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">2004-05</td><td>Base Fee</td><td></td><td></td><td></td><td></td><td>45%</td><td>45%</td><td>10%</td></tr>
<tr><td>OPI</td><td></td><td></td><td></td><td></td><td></td><td>80%</td><td>20%</td></tr>
<tr><td>Admin costs</td><td colspan="2"></td><td colspan="2"></td><td colspan="2">100%</td><td></td></tr>
</table>

Notes: For accounting purposes, revenue is recognised according to when costs are incurred. Timing of the final remuneration payments is subject to the respective pool's finalisation dates (i.e. final distributions to pool participants).

Wheat Export Authority

Mandate

The Wheat Export Authority ("WEA") was established as an independent statutory authority on 1 July 1999 in response to the transfer of the Australian Government's wheat marketing and selling role to AWB (International) Limited ("AWBI"). The WEA operates under the Wheat Marketing Act 1989 ("Act") and has two main functions:

- to control the export of wheat from Australia
- to monitor AWBI's performance in relation to the export of wheat and examine and report on the benefits to growers that result from that performance.

The WEA's reporting program includes an annual performance report that has been presented to the Federal Minister of Agriculture, Fisheries and Forestry ("Minister") in 2001, 2002 and 2003, as well as corresponding public Wheat Grower Reports that are derived from the Ministerial reports.

As a result of the Wheat Marketing Amendment Bill 2002 ("Bill") being introduced to Australian Parliament, the Act was amended in 2003. The Bill was originally introduced to continue the funding of the WEA by placing a levy of 22 cents per tonne on all wheat exported from Australia ("levy"). However, on 30 June 2003 the Wheat Marketing Amendment Act 2002 was enacted to include the following items in addition to the levy:

- Section 5A of the Act provides that in performing its function of controlling the export of wheat, the WEA must seek to complement any objective of AWBI to maximise net pool returns for growers, while at the same time seeking to facilitate the development of niche and other markets where the WEA considers that this may benefit both growers and the wider community
- Section 5D of the Act, allows the WEA to direct AWBI or a related company, to provide any information or documents in relation to the operation of the AWB National Pool
- Section 5E of the Act, complements Section 5D by providing confidentiality provisions for dealing with information
- Section 57(7) of the Act was amended so that an independent panel will conduct the legislated 2004 Review rather than the WEA itself
- in conducting the 2004 Review, the independent panel is also to review the WEA's performance of its functions under the Act.

2004 Review

In December 2003, the Minister appointed an independent panel of three people to conduct the scheduled review of the following matters consistent with Section 57(7) of the Act:

- the operation of sub section 1A of the Act in relation to AWBI i.e. the prohibition on the export of wheat does not apply to AWBI
- the conduct of AWBI in relation to:
  - consultations for the purposes of sub section 3A of the Act, i.e. before giving consent the WEA must consult AWBI
  - the granting or withholding of approvals for the purposes of sub section 3B of the Act, i.e. the WEA must not give a bulk export consent, without the prior approval in writing of AWBI
- whether benefits to growers have resulted from the performance of AWBI in relation to the export of wheat
- the WEA's performance of its functions under the Act.

Both the Minister and the Chairman of the Independent Panel have stated that the 2004 Review is not to be a reconsideration of the Single Desk arrangements. The Independent Panel must provide the Minister with a report of its review before 1 August 2004. A further report specifically targeted at wheat growers must be published by 1 September 2004 ("Wheat Growers Report"). The Wheat Growers Report must adhere to the confidentiality provisions contained in Sections 5D and 5E of the Act.

National Competition Council

The Single Desk system is established under the Wheat Marketing Act 1989 in which AWBI is appointed as the sole marketer of Australian export bulk wheat. Both the Single Desk system arrangements and the operation of the system by AWBI are enshrined in the legislation and require an Act of Parliament to be amended. The Single Desk system marketing arrangements for wheat enjoy largely bipartisan support in the Australian Parliament.

The operation of the Single Desk system was reviewed in the National Competition Principles ("NCP") review process, which reported in December 2000. The Australian Government responded to this review in early 2001 by retaining the existing arrangements under which AWBI is responsible for the operation of the Single Desk system. The Single Desk system legislation is not scheduled to be reviewed under NCP guidelines until 2010.

Grower support for the Single Desk system has been expressed over a long period of time by individual growers and by state based grower representative organisations. The Grains Council of Australia ("GCA"), as the peak representative grain grower organisation, has reinforced this support and commitment to the Single Desk system. The Single Desk system also has significant support across the country, with a nationwide Rural Press market survey conducted in 2003 revealing that more than 80% of grain growers support the retention of the Single Desk system and 79% consider AWBI's management to be excellent, very good or good.

Key drivers

External

- AUD/USD exchange rate
- United States wheat price per tonne (by competing grades)
- GPV
- Australian wheat production
- World wheat production
- Non traditional exporters.

Internal

- Administration costs of Pool Management Services
- Base Fee (floor and cap)
- OPI
- Percentage of Base Fee received in financial year
- Percentage of OPI received in financial year
- Achievement of out performance.

Growth prospects

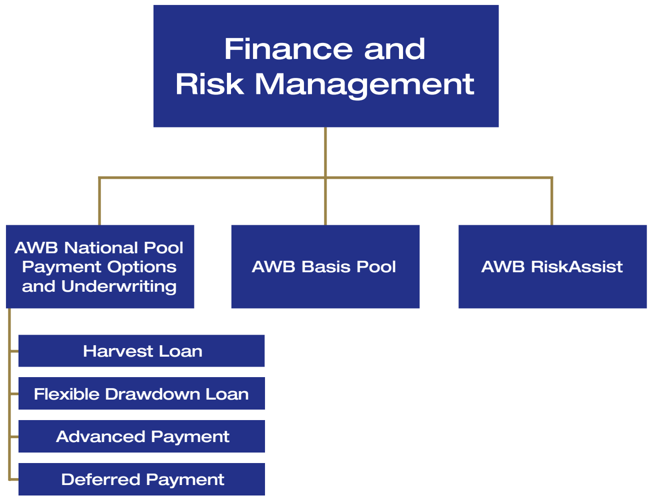
Performance based remuneration directly links its payment with the GPV, providing an annuity-style earnings stream for AWB with a potential earning of a Base Fee and 1.5% of GPV when out performance over and above the WIB and Hurdle is achieved.

Performance based remuneration provides incentives for AWB to deliver cost effective and efficient services to maximise net returns for growers. It is designed to encourage continued investment by AWB in resources such as intellectual capital, market knowledge and understanding and sophisticated business management systems.

Looking to the future, the AWBI Board of Directors has set an ambitious target for the competitiveness of Australia's wheat product in international markets. AWBI is aiming for 60% of the AWB National Pool volume to be exported to Asia by 2008 (compared with around 40% in 2004). Achieving this goal will enhance the GPV at a time when emerging new global competition will introduce more pricing pressure. Crucial to achieving this goal is working with customers to identify the key wheat quality and processing characteristics that must be incorporated in AWB's wheat products. AWB has established a path forward with plant breeders and industry to deliver new varieties and wheat segregations, based on key characteristics such as improved protein strength.

The AWBI Board of Directors has also commissioned the Boston Consulting Group to develop a market-led strategy to consider maximising net returns to growers supplying the Single Desk system. This work is being done in the context of further understanding global wheat markets and, while not finalised at the time of writing, it is reinforcing strategies AWB is already employing, such as targeting premium markets with differentiated products to capture quality premiums and focusing on customer requirements.

Finance and Risk Management



The Finance and Risk Management business is divided into:

- AWB National Pool Payment Options and Underwriting
- AWB Basis Pool
- AWB RiskAssist.

AWB Financial Services is focused on expanding and fine-tuning its financial services offer to AWB's customers while returning value to AWB. An example of this is AWB's continued offering of both payment and loan options to all growers across Australia. This offer is available for all grades of wheat.

Each year following harvest, AWB Financial Services conducts a series of post-harvest review workshops to better improve AWB's service and improve working relationships with AWB's customers. Typical outcomes of these workshops are product enhancements and refinements. Going forward, AWB is looking at several enhancements to the Flexible Drawdown Loan product to offer more competitive advantages to growers.

AWB National Pool Payment Options and Underwriting

AWB provides integrated financial services products for Australian grain growers to manage the uncertainty of revenue and to assist with their cash flow needs. Despite increased competition in this area from other financial institutions, AWB continues to be the growers' harvest financier of choice. The AWB National Pool Payment Options for 2003-04 are as follows:

- Harvest Loan
- Flexible Drawdown Loan
- Advanced Payment
- Deferred Payment.

AWB was the only participant in the market place to offer both loan and payment options for the 2002-03 season. This feature has allowed growers to mix and match the products to suit their cash flow needs.

With increasing competition in the market place, AWB Financial Services recognised the need for greater financial disclosure and in 2002 employed regional financial experts to assist growers and other agricultural advisers to better understand AWB's products. In 2002-03, AWB's range of payment options and on-ground experts enabled AWB to maintain its market share for the second consecutive season since other financial institutions entered the harvest finance market four seasons ago.

Wheat growers who deliver to the AWB National Pool can use one or more of the AWB National Pool Payment Options to receive their cash flow.

Harvest Loan

The Harvest Loan ("HL") enables the grower to receive the majority of their cash flow at harvest by way of a loan based on 90% of the Nominated Estimated Pool Return ("NEPR") less estimated costs. This is a non-recourse loan repaid from AWB National Pool distributions, plus GST, made during the "pool life" of the AWB National Pool. If these distributions do not fully repay the loan, the grower does not have to repay any loan amount outstanding. This product has a competitive variable interest rate and being non-recourse effectively guarantees a minimum amount that the grower will receive from the AWB National Pool. The grower can repay the loan at any time without penalty.

Flexible Drawdown Loan

The Flexible Drawdown Loan ("FDL") gives the grower ultimate control of their cash flow. Based on the grower's total deliveries to the AWB National Pool, the grower has access to a total credit limit of 90% of the NEPR, less estimated costs. Growers may nominate an automatic drawdown amount prior to harvest from 0% to 100% of the available credit limit. The credit limit is reduced as the AWB National Pool distributions, plus GST, are paid. The grower can repay and redraw the loan at any time without penalty or cost. Product take-up by growers indicates that the FDL has successfully addressed the migration to competitors' harvest finance facilities.

Advanced Payment

The Advanced Payment ("AP") gives the grower the majority of their cash at harvest in the form of a payment, rather than as a loan. The initial payment is based on 80% of the NEPR, less estimated costs. Should the final pool return drop below this figure, the grower will not be asked to repay any money to AWB. In effect, this is the minimum amount that the grower will receive. This initial payment, plus two additional payments if the revised Estimated Pool Return ("EPR") has not dropped below the NEPR, effectively replaces the five distributions paid from the AWB National Pool.

Deferred Payment

The Deferred Payment ("DP") is designed to maximise the growers' control over their taxable income. Unlike the other products, the initial payment is made in the financial year following delivery. The initial payment is based on 90% of the July EPR, less estimated costs. The grower shoulders a greater price risk with the DP, because if the July EPR drops below the November NEPR the grower bears the risk. As with all AWB payment options, should the final pool return drop below the amount received in the first payment, the grower will not be asked to repay any money to AWB.

Underwriting

AWB is able to make all of its AWB National Pool Payment Options non-recourse as the HL, FDL and AP are charged an underwriting fee. The DP is not charged an underwriting fee because the initial payment is based on the July EPR when the majority of the AWB National Pool has been priced, and this price is considered when making the balance available. The risks associated with providing underwriting are assessed each year and hence the fee (AUD1.60 per tonne as at May 2004) is set at an appropriate level to compensate for the risk.

Approximately 19.2 million tonnes of wheat were received by AWBI during 2003-04, of which 16.0 million tonnes were available for payment using the AWB National Pool Payment Options, with approximately 11.0 million tonnes being financed this way.

Outturn of wheat commences shortly after the first wheat is delivered. As cash from these sales is received, the net receipts are distributed quarterly and used to repay the AWB National Pool Payment Options. Sales of AWB National Pool wheat proceed during the year. AWB has a policy that should the amount of priced wheat exceed a certain pre-determined level, then a further loan drawing or payment of up to approximately 50% of the remaining estimated grower returns in the AWB National Pool may be made, typically in May. This occurred for 2000-01 and 2001-02 and also in 2003-04, but was not paid in 2002-03. Once the grower loans or payments are fully repaid, the balance of the sale proceeds is paid directly to growers.

2003 Loan book

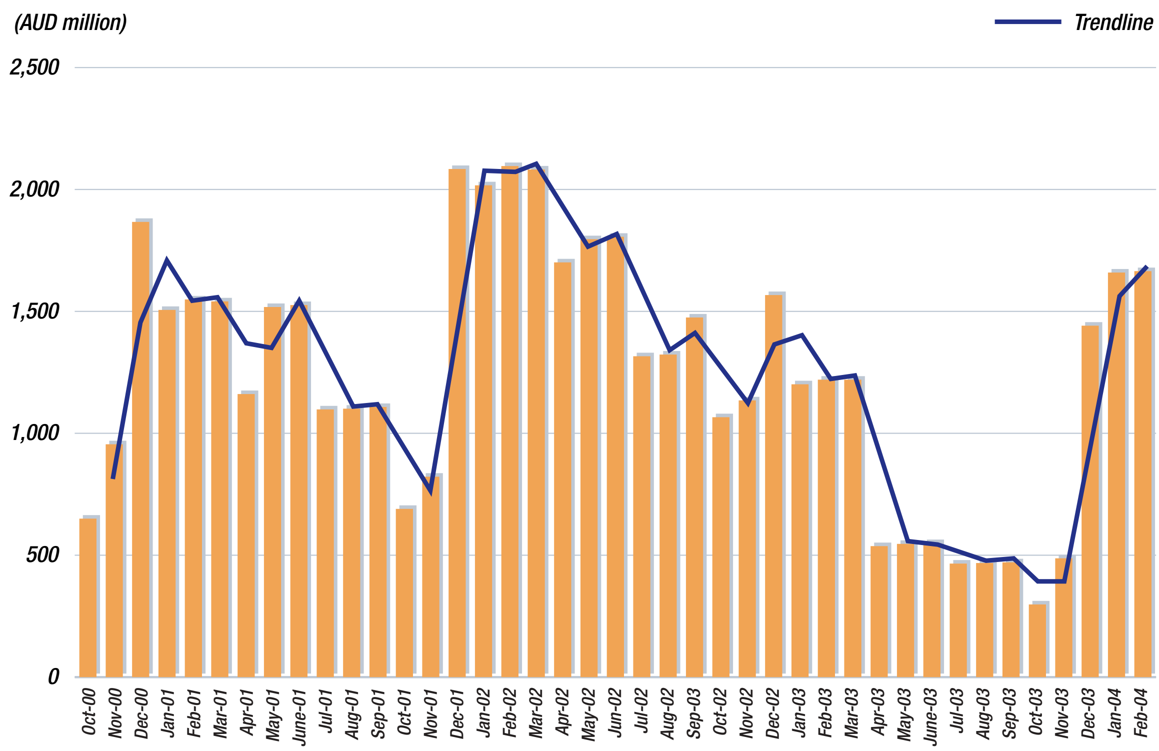
The loan and payment amount extended to growers is cyclical, with a peak typically in January or February of each year. Combining 2002-03 and 2003-04, with little funds from the drought of 2002-03, the 2003-04 financial year to date, peak combining both seasons was AUD1.6 billion in February 2004. The cyclical nature of loan amounts is demonstrated in the chart below, which shows the loan amount extended to growers. The following table shows AWB National Pool receivals and tonnes available for AWB National Pool Payment Options:

Harvest	Receivals (million tonnes)	Available for lending and underwriting (million tonnes)	Tonnes on which AWB National Pool Payment Options and Underwriting undertaken (million tonnes)
2000-01	15.0	12.0	9.9
2001-02	19.3	14.3	10.5
2002-03	4.7	3.7	2.7
2003-04	19.2	16.0	11.2

Note: The difference between AWB National Pool receivals and tonnes available for lending and underwriting represents non-grower deliveries to the AWB National Pool (e.g. the Grain Acquisition and Trading Division deliveries into the AWB National Pool, Basis Pool, etc).

Source: AWB, March 2004.

AWB Loan book – October 2000 to February 2004



Source: AWB, March 2004.

Key drivers

- AWB National Pool receival tonnes
- AWB National Pool tonnes available for AWB National Pool Payment Options
- AWB National Pool Payment Options take-up
- Average price
- Loan book interest rate
- Underwriting fee
- Interest margin
- Competition
- Grower liquidity (cash flow).

Growth prospects

With the acquisition of Landmark in August 2003, AWB's Finance and Risk Management Division ("AWB Financial Services") is now part of one of the largest specialist agricultural finance and risk management companies in Australia. AWB Financial Services is now better placed to offer enhanced finance and risk management products to meet the changing needs of Australian farmers.

AWB's regional finance experts are now combined with Landmark's rural finance team to deliver a compelling proposition to the Australian agricultural market.

Earnings growth in AWB Financial Services will be generated by an increase in grains under management in harvest finance, innovative product development, strength in distribution and competitive cost of funding. With access to new products such as term lending and overdraft finance, AWB Financial Services provides a complete suite of financial services to the broader agricultural community.

AWB Basis Pool

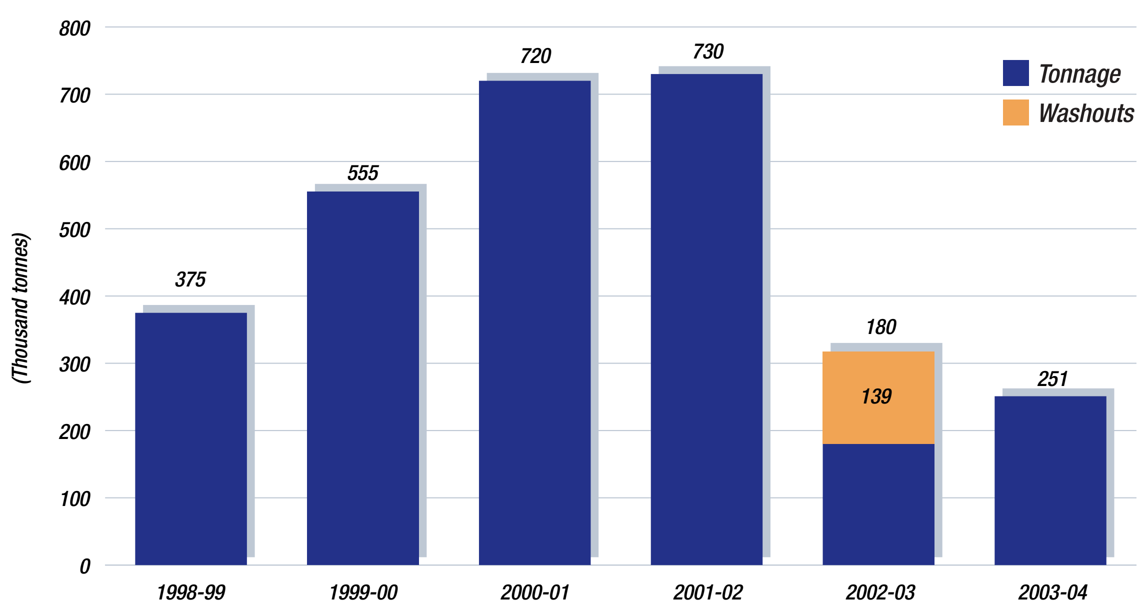
Introduced during the 1998-99 season, AWB Basis Pool ("Basis Pool") is an important risk management product for growers who choose to individually manage their own commodity and foreign exchange exposures. With this product, AWB manages the basis risk on the grower's behalf, giving participants access to the strength of the AWB National Pool basis.

Growers participating in the Basis Pool can choose to receive a HL of a minimum 65% of the estimated Basis Pool return, less estimated costs. The loan is repaid out of Basis Pool distributions, which are paid in three tranches. The underwriting fee for the Basis Pool product is AUD1.25 per tonne (as at May 2004). Alternatively, growers can elect to simply receive their payments through the Basis Pool distributions.

This product provides growers with significant flexibility in managing their own price returns, but they accept more responsibility for managing the associated risks in the process, and therefore, by association, AWB has less risk to manage.

After strong trend growth in Basis Pool volume since 1998-99, the 2002-03 drought had a significant impact on volume for both 2002-03 and 2003-04. The Basis Pool is a forward pricing product, and following the difficult washout situations experienced during the 2002-03 drought year, growers were very reluctant to commit grain pre harvest during the 2003-04 season. In addition, a strong rally in the Australian dollar during the 2003-04 season and an inverted wheat futures market made the Basis Pool look uncompetitive against the estimated AWB National Pool return. Depending on market conditions and growers' willingness to price forward, AWB is expecting 2004-05 season Basis Pool volumes to improve.

Basis Pool tonnage contracted from 1998-99 to 2003-04



Source: AWB, March 2004.

AWB will continue with its strategy to target groups of progressive growers as well as co-operatives to increase tonnages. The risk management service offered by AWB RiskAssist supports this strategy. AWB RiskAssist provides an all-encompassing service to support the Basis Pool, including wheat futures and currency component execution, financing of hedge positions and balanced advice on hedging with futures and options. The AWB RiskAssist service is offered on the core Basis Pool via the products Basis Pool Plus and Partner Pool.

AWB's Grain Acquisition and Trading division draws a fee for managing the Basis Pool. This covers expenses associated with hedge management (protecting the basis and co-ordinating the futures and currency hedge unwind on behalf of all Basis Pool participants), funding distributions and managing currency movement due to timing mismatches between Basis Pool and AWB National Pool distributions, calculating the basis according to the published timetable, developing marketing plans and strategies to promote the Basis Pool, and overseeing all issues around contract execution and administration with suppliers into the Basis Pool.

Key drivers

- Basis Pool tonnes received
- Grower sentiment to forward pricing and futures as well as foreign exchange market conditions
- Management fee and underwriting fee
- Costs associated with Basis Pool.

AWB RiskAssist

AWB RiskAssist Limited ("RiskAssist") commenced operations in April 2001. It is a specialist risk management service to supplement and build on AWB's core business of grain marketing. RiskAssist is a wholly owned subsidiary of AWB, and is now an Australian Financial Services Licence holder.

RiskAssist utilises AWB's strengths in grain marketing and risk management to offer a different perspective and insight to customers. AWB's direct involvement in physical grain flows, together with the design and actual management of risk management products, gives AWB a unique advantage over its competitors.

When these risk management services are included with financial services, it enables AWB to provide a grain marketing package to growers that includes business cash flow management and working capital assistance.

RiskAssist currently offers growers participating in the Basis Pool a unique risk service package, encompassing hedge transactions for commodity and foreign exchange price components, management and funding of daily margins, as well as balanced market and risk management advice. The product is called Basis Pool Plus, and RiskAssist charges a fixed rate per tonne for this service, currently AUD6.80 per tonne (as at May 2004). Approximately 75%-80% of growers using the Basis Pool use the RiskAssist service. RiskAssist offers a product called Partner Pool for groups of growers wishing to collectively make grain pricing decisions utilising the Basis Pool Plus contract. Partner Pool contracts also provide the flexibility to vary the timing and size of distribution payments to suit the AWB Group's cash flow needs.

For growers wanting to take control over the basis component of their price returns, RiskAssist has a Fixed Basis product. This product allows growers to individually manage the three components of their price returns:

- Futures
- Foreign exchange
- Basis.

RiskAssist charges a fixed rate of AUD5.10 per tonne (as at May 2004) for this service.

RiskAssist and Landmark are running a pilot program in Western Australia to gauge the take-up of a combined grain and wool risk management offering for growers. Having a risk management expert on the ground in Western Australia is also expected to assist grower take-up of risk management products.

RiskAssist offers a specialised and tailored risk management service to AWB's domestic and international customer base. Price risk options products are embedded into the physical grain contracts, providing simple and convenient price risk management solutions to customers.

AWB has experienced strong take-up of these price risk management products offered to its domestic and international customer base. In excess of three million tonnes of price risk products have been contracted with customers since mid 2002. The number of customers using the products is expanding, and it is expected that this area of RiskAssist's business will continue to grow.

Providing price risk products to AWB's consumer customer base strengthens the relationship and product offering to customers, helps protect and grow market share, enhances AWB's ability to secure long term grain contracts, and provides a means of reducing AWB's credit exposure to customers.

Customers are charged a competitive market rate for price risk products, which includes a margin.

Key drivers

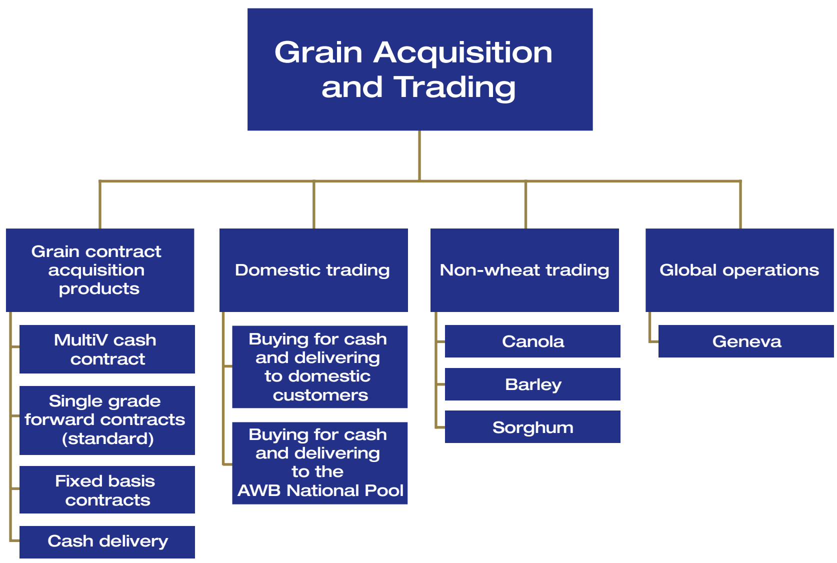
- Tonnage delivered to Basis Pool Plus and Fixed Basis products
- Grower sentiment to forward pricing and futures as well as foreign exchange market conditions
- RiskAssist marketing fee and margin for Basis Pool Plus and Fixed Basis products
- Customer price risk management product margin and tonnage
- AWB export volume.

RiskAssist is continuing to concentrate on increasing customer take-up of risk management products through a co-ordinated effort with AWB's Grower Services Division, and AWB's domestic and international trading and marketing teams. Broadening the product range to meet changing grower and customer needs, and market conditions, will assist to further leverage AWB's strong relationship with growers and customers.

Discretionary treasury trading

Discretionary treasury trading activities are undertaken to gain market intelligence; prevent skewing of market prices; and add value to the bottom line of the AWB Group. Limits for foreign exchange discretionary treasury trading and interest rate discretionary treasury trading have been delegated to AWB's Treasury Division. These discretionary trading limits include rigid stop loss limits. Discretionary treasury trading policy and limits are approved by the AWB Board of Directors and individually by subsidiary Boards as applicable.

Grain Acquisition and Trading



The Grain Acquisition and Trading Division ("Trading Division") is divided into:

- Grain contract acquisition products
- Domestic trading
- Non-wheat trading
- Global operations.

The aim of the Trading Division is to provide growers and grain consumers with cash sale options before, during and after harvest, and manage the risk, as a principal, on these grain positions. It is also focused on supplying up to 100 grain processors and grain feeders across Australia with their requirements in competition with a range of other grain trading houses.

In some of the grain books managed by the Trading Division, AWB exports into markets such as Japan, China, New Zealand, Egypt, India, Pakistan and the Pacific.

Grain contract acquisition products

A suite of comprehensive grain purchasing options for all grains, ensures that the Trading Division maintains a pre-eminent position of securing grain, primarily through its cash based forward contract products. This also provides a level of physical arbitrage (e.g. both within the Trading Division's own wheat book and with AWBI and other external traders through the physical swaps process), which contributes to the Trading Division's earnings.

In 2000-01, the Trading Division forward contracted 700,000 tonnes of grain and this trend increased substantially in 2001-02 with 1.7 million tonnes committed prior to harvest. In the drought year of 2002-03, 1.0 million tonnes were pre-committed and although this was a large volume, in excess of 400,000 tonnes of grain were washed out due to production failure. The impact of drought continued to weigh on the market, with growers in 2003-04 reluctant to commit to forward contracts. AWB's trading strategy differed to previous seasons with the focus being oriented towards consumers' business prior to harvest. It is expected that it will be more difficult to buy grain forward from growers and hence AWB will continue to have to offer flexibility as well as attractive prices. AWB's Washout Assistance Loan continues to offer assistance to growers experiencing production failure and AWB has been able to manage this exposure to the satisfaction of both parties.

Products

- MultiV cash contract ("MulitV")
- Single grade forward contracts (standard)
- Fixed basis contracts
- Cash delivery.

The suite of AWB's grain contract acquisition products will continue to expand. MultiV, a forward contract that provides growers flexibility to deliver any grade of wheat at a known cash price, is the most widely used contract option in the grains industry.

In addition to MultiV and the standard single grade forward contracts, the Trading Division sources grain through basis contracts, cash prices available at harvest and through Target Price Orders which allow growers to nominate price levels at which they will commit to selling to the Trading Division. If the Target Price is reached the grower's Target Price contract is automatically converted to a contract avoiding missed opportunities through sudden price movements or not following the market every day.

Payment terms

Payment is typically made to growers within 30 days from the end of the week of delivery for all grain contract acquisition products. These payments are funded from intercompany borrowings.

Funding continues until payment is received for sale of grain to customers, the terms of which vary from prepayments (i.e. cash received prior to stock transfer) to over one year (in the case of final pool distributions relating to deliveries to the AWB National Pool). Refer to page 26 for risk management discussion.

Domestic trading

AWB has approximately 100 customers that it sells a variety of grains to within the domestic market. Domestic trading is divided into:

- buying for cash and delivering to domestic customers
- buying for cash and delivering to the AWB National Pool.

Buying for cash and delivering to domestic customers

Since domestic wheat deregulation in 1989, the Trading Division has maintained strong relations with the largest domestic grain consumers. Strong relationships with consumers assist in providing a source of valuable liquidity as important information in relation to forecast consumptive trends. In addition, given AWB's ability to buy large volumes of all grain types from all regions throughout the Australian grain belt, the Trading Division also trades with other grain trading companies, including GrainCorp, AusBulk, ABB Grain, Cargill and Louis Dreyfus. Trading with these companies expands the volume of grain turnover, providing additional profit generating opportunities. Consolidation within the industry continued with GrainCorp taking over Marketlink and Grainco, ConAgra reducing its involvement in the Australian grain trading market, and ABB Grain buying Jossco.

In 2003-04, AWB continued to be a significant supplier to all three major milling consumers and to the major stockfeed and feed grain integrators.

Additional structured products and services are being offered to consumers in response to changing procurement practices.

Buying for cash and delivering to the AWB National Pool

The Trading Division, similarly to any grain trading operation in Australia, has the opportunity to participate in the strength of the Single Desk system by delivering wheat bought from growers for cash, into the AWB National Pool, and it receives a pool return (distribution), which is paid out progressively over the "pool life". The Trading Division achieves profits by buying wheat for cash across the country before, during and after harvest contracting – at a competitive price to the ultimate AWB National Pool returns – and delivering into the AWB National Pool. There is a risk that the AWB National Pool will not perform as forecast or that distributions will not be made as forecast, therefore increasing interest costs. The Trading Division therefore monitors and hedges these risks through a combination of hedging tools in both United States cash and derivative markets.

Non-wheat trading

- Canola
- Barley
- Sorghum.

Canola

Canola volumes in 2003-04 increased to 300,000 tonnes with AWB exporting canola to Japan and the Sub Continent countries such as Pakistan and Bangladesh. Market share in Victoria and South Australia has increased with AWB trading close to 50% of production in the deregulated markets. AWB was also active in supplying a domestic crusher, which offered a solid base in which to accumulate seed. Margins in canola continue to be attractive as global consumptive demand outstrips production, and the margins foe vegetable oil crush maintain their attractiveness. Significantly, AWB has re-established a grower acquisition presence in Western Australia and New South Wales in 2003-04, which AWB will look to expand upon offering additional volume and profitability in the future.

Barley

AWB is forecast to trade 200,000 tonnes in 2003-04, however, at present the Trading Division is unable to penetrate the malt market due to long term supplier agreements excluding AWB. The barley book continues to offer a way of diversifying domestic trading risk and can act as a natural hedge to competing feed grains. Ultimately, AWB is aiming to align the book more closely to the export market rather than rely on domestic grain flows.

Sorghum

Sorghum volume in 2003-04 should increase, with production increasing and a sizeable available surplus in place for the Japanese market. The Trading Division has sold sorghum to a number of major Japanese trading houses as well as grain in containers to the Pacific. The drought in Europe has seen United States sorghum exported into Europe to offset the deficit in that market. United States sorghum rallied substantially, lifting Australian and world sorghum prices. The forecast tonnage is expected to be at 300,000 tonnes.

Volume traded

The Trading Division has rebounded strongly from the drought impacted 2002-03 season with wheat and canola books making a strong contribution to the Trading Division's profitability. The changed grower-selling pattern has meant that the Trading Division has had to innovatively trade these books whilst at the same time look for additional ways to capture consumer business. The drought also had a lag effect on the stockfeed sector, with lower feeding demand especially from the dairy sector in the south. Good rains through the later part of 2003 and early 2004 have enhanced pasture production, placing pressure on feedlots, which are contract feeding, however, the export meat market has provided a solid level of demand. The pork industry continues to face significant competition from imports and the fluctuating currency will add to the industry's risk management requirements and scope for AWB to provide risk management solutions.

AWB is able to swap grain with the AWB National Pool onto sites that may provide a preferential domestic opportunity for domestic customers rather than the AWB National Pool exporting the grain. The size of the Trading Division's individual books provides arbitrage and swap opportunities that give customers increased flexibility when dealing with AWB.

Volume traded in 2003-04 is expected to be in excess of 3.5 million tonnes in all grains. This represents a 40% increase on the previous year's volume, with AWB expected to maintain market share within the domestic market of around 35%.

AWB deliveries to the AWB National Pool totalled approximately 1.9 million tonnes.

Market intelligence

The Trading Division sources market intelligence on international price movements and monitors the structure of commodity markets both locally and internationally, crop size and quality profiles, currency and interest rate risks, customer demand profiles, the impact of foreign government policy and local production trends. This ensures a strong position to out perform competitors, all of which are required to prudently manage the risks associated with grain trading.

Risk management

In addition to production risk, the Trading Division manages price exposures using a range of instruments that vary from the relatively common (commodity futures and options on commodity futures), to relatively complex derivative products. Risks such as those created by international competitor supplies (e.g. United States crop size) are hedged using the United States commodity exchanges, through over-the-counter structured derivatives as well as the United States cash markets for the various grades that Australian wheat competes against in the export market (export basis trading).

The Trading Division also protects against adverse currency movements that could impact grain positions through active foreign exchange management, utilising AWB's Treasury Division. The Trading Division adopts these positions to protect against adverse movements in EPRs from wheat delivered to the AWB National Pool. Tonnage transferred to the AWB National Pool can experience both up and downside movement from a pool return (price) perspective. The AWB National Pool takes 15 to 18 months to distribute payments whereas the majority of domestic sales are negotiated either on 30 days end of week terms or cash pre-payment terms. In addition to price risks, counterparty (credit) and execution risks are closely monitored.

Basis trading forms the foundation of the risk management approach of the Trading Division. Effectively, basis trading allows a risk manager to hedge a significant percentage of the local wheat price against the closely correlated United States commodity futures exchange values for both nearby and deferred exposures. Currency exposure can be fully offset through spot and forward rate currency markets. The remaining price exposure is to local and export cash market influences "the basis". Thus, the profitability of the book (wheat, canola and sorghum can all be basis traded) is highly dependent on correctly positioning the physical product (short/long) in line with movements in the basis. The Trading Division has developed a significant level of expertise in managing basis risk in Australian grain markets.

The Trading Division utilises the derivative markets predominantly as a hedging tool against its physical positions not as speculative, stand-alone strategies. All returns captured through derivatives are designed and implemented to hedge physical book positions. The Trading Division has a small amount of discretionary derivative authority to trade positions and this is reported weekly to AWB's Corporate Risk Review Committee ("CRRC").

There is a risk that any trading entity can suffer losses. However, AWB's approach to risk, scrutiny of strategy and position management, as well as the knowledge of the domestic and export markets based on long term customer relationships and experienced personnel, mitigate against many of the risks faced in the core sections of its trading portfolio.

Business rules with regard to information transfer between the Trading Division and the AWB National Pool management have been developed to ensure that AWB's constitutional requirement of maximising net returns for growers is not compromised.

Governance

Governance of the risks and policies framing the activities of the Trading Division are reviewed weekly by the CRRC. Additionally, the Corporate Risk Unit monitors exposures and market developments independently of the Trading Division. Risk measurement concepts and instruments, such as the Value at Risk method for establishing appropriate position limits and defining the capital at risk in AWB's trading activities, are utilised to ensure senior management is aware of the dimension of exposure carried within the portfolio.

Key drivers

- tonnes sold (cash trading)
- tonnes sold (AWB National Pool deliveries)
- margins per tonne
- costs.

Growth prospects

Aside from a resumption of the trend growth in grain production in Australia and the continued maturity of growers in diversifying their risk management skills and hence marketing requirements, AWB is well positioned to improve its services to local consumers and grow local market share in barley (both malt and feed) and canola. AWB is investigating new markets in pulses internationally and has improved its focus on feed grain opportunities into east Asia. AWB has initiated cottonseed trading and considers the Landmark acquisition as being a catalyst for other commodities and its extending customer base. The complementary nature of Landmark's cattle and wool business with AWB should highlight possible complementary business flows, which lead to growth prospects for both businesses.

A key area for growth will be export opportunities on non-wheat grains. The Trading Division will be looking to benefit from its established relationship with major international customers and its global network of offices and contacts. In particular, the Trading Division is targeting improved volumes through AWB-Zennoh (a joint venture company between AWB and Zennoh), which will enhance liquidity and market information that at times underpins domestic sorghum and canola values. Increased non-Australian grain trade through AWB Geneva is also creating more trading opportunities for AWB oilseed and barley desks.

Domestic trading is well positioned to take advantage of an increase in stockfeed production as the sector recovers from the drought over the next two years.

AWB's national focus offers flexibility to consumers active in markets across Australia and as well as locally. Understanding AWB's consumers' businesses and offering tailored products, risk management techniques and services will drive repeat business, increasing traded volume and ultimately profit.

AWB's key competitive advantages remain the strength of its grain acquisition capability, its brand in the market and its understanding of global grain market activity and how this translates into local market direction. AWB has the ability to magnify these strengths through excellence in risk management in both commodity and currency exposures.

Global operations

AWB Geneva

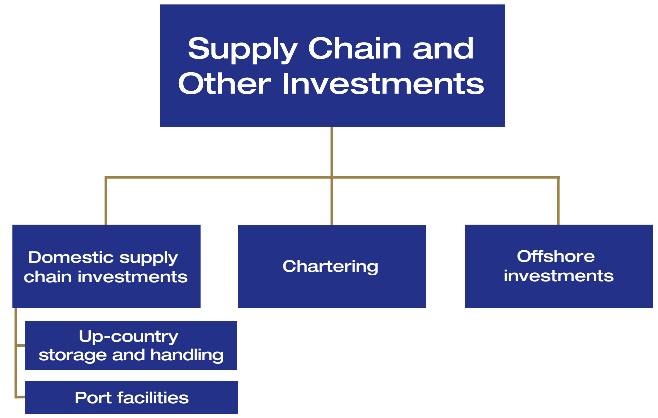
AWB Geneva ("AWBG") was established in 2002 as a platform for AWB to grow its international presence and business, through the trading and supply of non-Australian commodities to existing and new customers. Participation in this activity allows AWB to deal with customers in the Mediterranean basin, west Africa and north Africa, and its presence in the trade allows supply of European Union, former Soviet Union and sub continent originated grains to these markets. In addition to this, activity has developed in non-wheat grains, including soybeans to the Indonesian market, which further diversifies AWB's earnings capacity.

The first year of AWBG's operations ended on 30 September 2003, with it trading 1.5 million tonnes of grains to a variety of locations, including Egypt, Africa, Indonesia and the Philippines. In addition, the recent rise in freight values has allowed AWBG to profitably position trading activity to gain from market moves, which along with the commodity trading activity, resulted in earning a profit for the first full 12 months of operations.

During 2003-04, AWBG has continued to develop sales activity for Australian wheat, targeting Morocco, south and east coast Africa, and Asian markets. The larger Australian crop and smaller Indian export program for this period have provided additional trading opportunities. Soybean markets have also been expanded, with sales of soybeans into Malaysia and Thailand, complementing base activity, which focuses on supplying soybeans to the Indonesian market.

The AWBG business has successfully achieved the first stage of its development in line with original business objectives. Future plans will see further diversification of revenue streams, through establishment of new commodity books, consolidation of non-Australian wheat trading activity for the 2004 Northern Hemisphere harvest, and further development of customer marketing opportunities for non-Australian grains in Asia.

Supply Chain and Other Investments



The AWB Group has developed a number of infrastructure initiatives within the grain supply chain, which has introduced competition and resulted in reduced costs for growers. Through these initiatives, AWB intends to deliver long term returns on investment above the weighted average cost of capital. In addition, AWB benefits by receiving the Out Performance Incentive which is paid by AWBI for exceeding the supply chain sub benchmark.

The Supply Chain and Other Investments division is divided into:

- Domestic supply chain investments
- Chartering
- Offshore investments.

Domestic supply chain investments

AWB's investment in the domestic supply chain comprises the following components:

- up-country grain storage and handling facilities
- port facilities.

Historically, AWB, as a grain marketer, was reliant on state based monopoly bulk handlers for the storage and handling of grain. This resulted in a single channel supply chain where a single bulk handler operated both the up-country and port facilities. Further, state based monopoly rail freight operators provided transport between the two facilities.

Consistent with its mandate of maximising net pool returns to growers, AWB made a decision to enter the grain storage and handling business to drive competition and cost efficiencies. AWB entered the grain storage and handling business by constructing and operating its first wholly owned grain handling facility at Dimboola in western Victoria in 1999. Since then, AWB has invested in a further 20 sites in Queensland, New South Wales, Victoria and South Australia.

Following the construction of the Dimboola receival site, AWB invested in the development of a new grain handling port facility at Melbourne's Appleton Dock, where it has 50% ownership of the facility.

Up-country storage and handling facilities

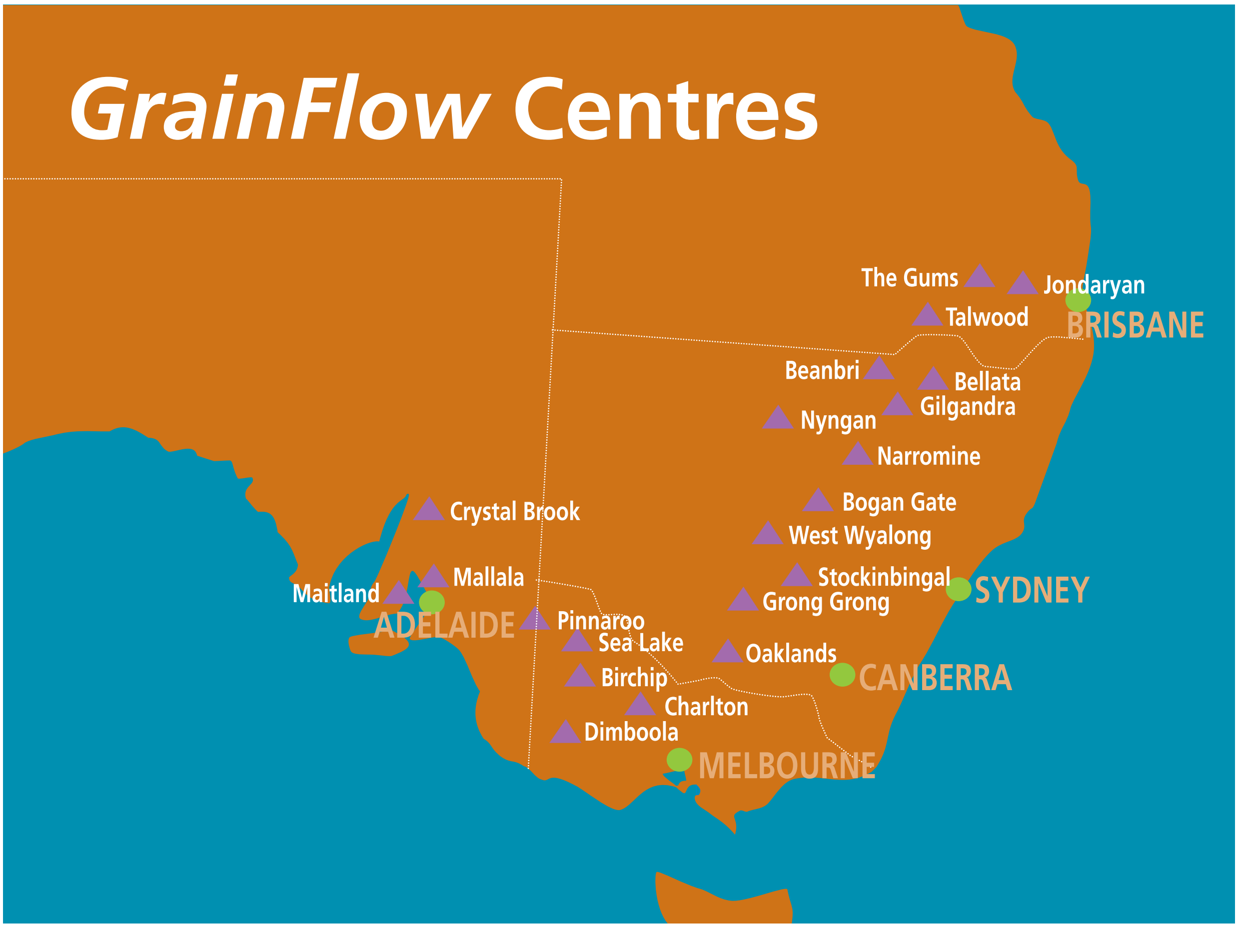
These facilities are owned and operated by AWB GrainFlow Pty Limited ("GrainFlow"), a wholly owned subsidiary of AWB.

The Dimboola facility was opened prior to the 1999 harvest, and more than 90,000 tonnes were received in the first harvest.

Following the opening of the Dimboola facility, AWB developed a comprehensive strategy for storage and handling on the east coast of Australia.

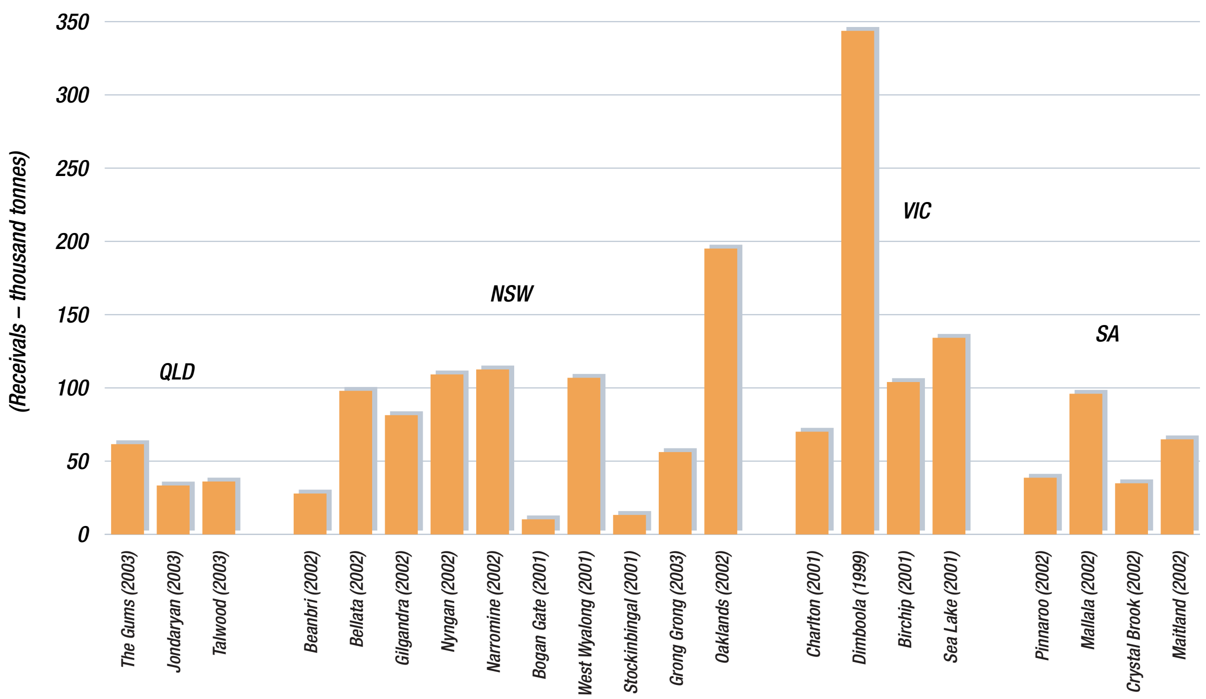
The objective is to increase competition, thereby lowering costs to growers in accordance with AWB's constitutional obligation, while achieving long term commercial returns. This primarily involved the construction and operation of 20 further storage and handling facilities at strategically located sites.

The diagram below depicts the location of the GrainFlow storage and handling network in the eastern states.



Source: AWB, April 2004.

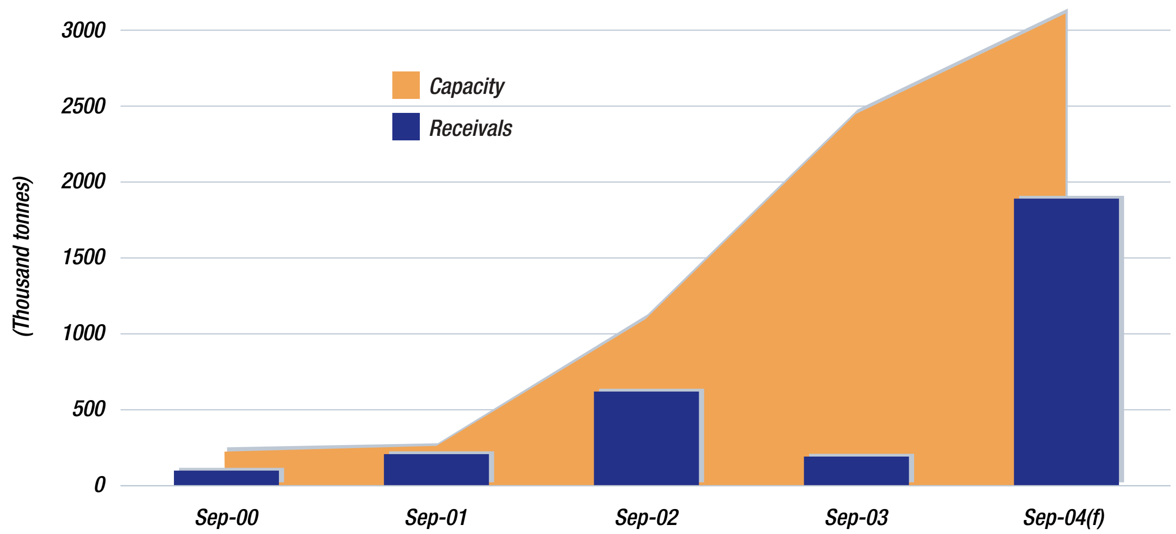
Receivals by grain centre during 2003-04



Note: (year) refers to the first operational year for GrainFlow. Source: AWB, April 2004.

The impact of the drought in 2002-03 resulted in a dramatic reduction in the level of receivals for 2002-03. The 2003-04 season has seen significant improvement, with recovery from drought conditions in all areas apart from lingering drought conditions in some areas of New South Wales.

GrainFlow receivals from 1999-00 to 2003-04(f)



Note: The current theoretical capacity for the 21 sites is estimated at 3.2 million tonnes. (f) = forecast. Source: AWB, April 2004.

Key drivers

The most important contributor to gross margin is receival volume through the grain centres. Other drivers to gross margin include price per service, storage period, casual labour utilisation and labour hire rates.

Strategy

AWB's long term strategy for its up-country storage and handling facilities is to promote competition to the existing storage and handling monopoly operators throughout the east coast of Australia, and to collaborate on the west coast for long term access with a realistic cost base.

Through investment in grain storage and handling facilities on the east coast of Australia, AWB seeks to lower supply chain costs to pool participants, while at the same time ensuring long term commercial rates of return are achieved for the investment. The AWB Group's intention is to accumulate a significant share of the grain production around each facility, and to be the receival site of choice for growers in the chosen areas.

CBH agreement

AWB and CBH recently announced a five year joint venture to unify their grain logistics in Western Australia with an agreement to establish a jointly owned company, Grain Direct Pty Limited ("Grain Direct"). The key objective and business activities of Grain Direct will centre on reducing grain logistics costs for AWBI and Grain Pool in Western Australia for the benefit of all grain growers and the broader agricultural industry. These activities will deliver savings to Western Australian growers through lower deductions for growers' grain payments by AWBI and Grain Pool. Savings will be in the order of AUD35 million per annum by the 2008-09 season; growers can expect to see a net reduction in charges of AUD3.30 per tonne. These savings will be achieved over five years. The establishment of Grain Direct is subject to Australian Competition and Consumer Commission approval.

Growth prospects

Growth will primarily be achieved through increasing market share of grain receivals around each site. It is imperative that each site is perceived as offering competitive pricing and value to growers relative to competition in the area. Efficient turn around times, low rail freight rates and an optimal pricing model all contribute to this goal. Growth will also be achieved by the use of innovative marketing strategies at local and regional levels, including loyalty rebates, on-farm pick up services at competitive rates, and strong focus on grain marketers participating at each site. Earnings growth will also be achieved by continued focus on reduction in costs.

There is also potential to increase the OPI paid to AWB by AWBI, based on AWB's performance against the supply chain benchmark index as a result of the value added to grower returns through lower supply chain costs.

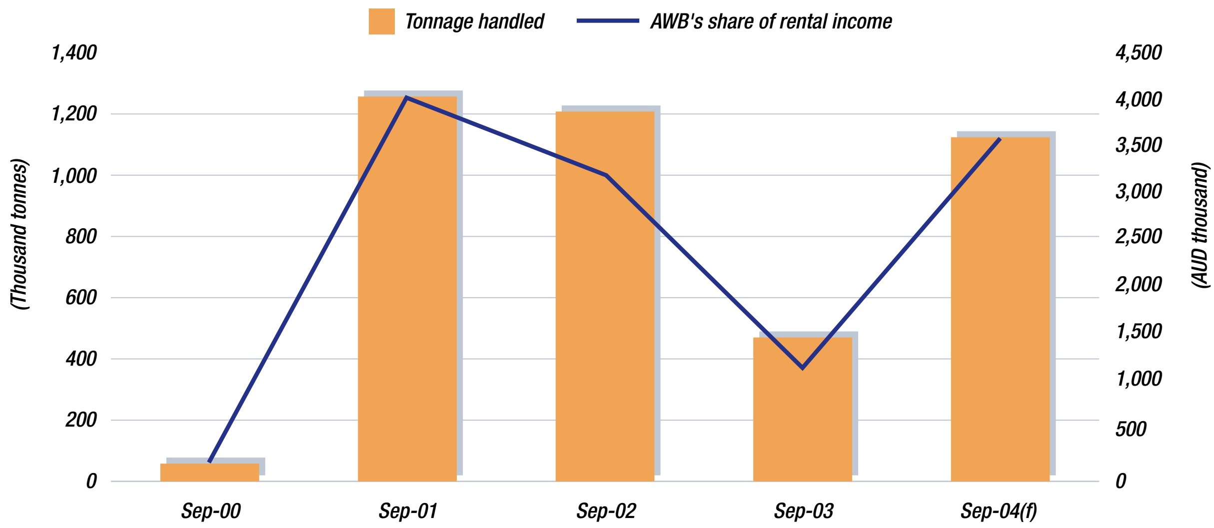
Port facilities

Melbourne Port Terminal

The AWB Group has a 50% investment in Melbourne Port Terminal, with the Australian Bulk Alliance (“ABA”) joint venture owning the remaining 50%. The facility is operated independently by ABA, and the operator enters into commercial agreements with grain marketers for services provided. In return, AWB, as joint owner of the facility, receives rental income from the operator based on the tonnage handled through the facility.

This investment fits with AWB’s strategic objective of encouraging competition in the domestic supply chain, of which port access is an essential component.

Melbourne Port Terminal – tonnage handled and AWB’s share of rental income



Source: AWB, April 2004.

Chartering

The AWB Chartering Division ("Chartering Division") manages all aspects of AWB's chartering operations including shipping operations (such as bulk capacity acquisition, voyage operations, backhaul cargo acquisition, containerised freight and risk management), voyage administration and accounting.

The Chartering Division has three product groups:

- chartering services – the provision, as agent, of chartering services to the AWB National Pool
- shipment consolidation services – the provision, as principal, of consolidation services for bulk export commodities
- trading – the trading, as principal, of shipping capacity focusing on two segments (position management and time chartering).

The Chartering Division's relationship with the AWB National Pool was restructured in 2000 so that it is effectively a manager of chartering capacity that earns a management fee based on performance in cargo flows as well as through position management. The relationship is governed by a service contract, which is reviewed annually. The contract sets out performance criteria and the fee structure.

Price risk

When the chartering business has a short or long freight position, then there is a risk that the market may go up or down in price. Limits are established and monitored by AWB's Corporate Risk Review Committee ("CRRC") with regard to price risk.

Key drivers

- AWB National Pool receival tonnes
- non AWB National Pool tonnes
- percentage of AWB National Pool business sold with ocean freight
- management fee
- costs
- trading margin.

Growth prospects

The Chartering Division has targeted the following three areas for future growth:

Freight derivatives – Forward Freight Agreements

Forward Freight Agreements are principal-to-principal non-exchange traded derivative contracts. The Chartering Division has embraced the growth in the freight derivatives market as a hedging and positioning tool and successfully used these instruments to trade an inverted freight market over the past 12 months. Limits have been established and are monitored by the CRRC.

Global freight trading – Geneva freight desk

With the opening of AWB's office in Geneva, the Chartering Division has established a freight trading desk in Geneva to support AWB's global grain trading activities. The Geneva freight desk has been active in developing global freight initiatives in other bulk commodities for the Chartering Division. This desk also executes the derivatives trading strategy for the Chartering Division.

Expansion of cost and freight selling

The Chartering Division is working closely with the AWB National Pool in developing strategies to convert traditionally free on board ("FOB") Australian wheat customers into cost and freight ("CFR") buyers. The past 12 months has seen growing AWB National Pool CFR rates with successes in converting traditional FOB markets to CFR. The Chartering Division is on track to grow CFR sales penetration from 45% to 65% of the AWB National Pool sales.

Offshore investments

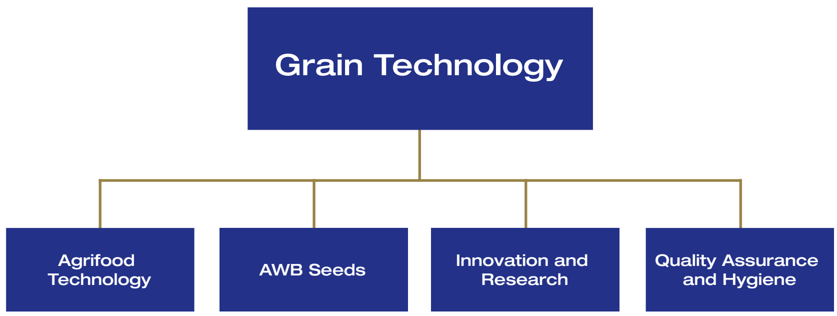
AWB is implementing an offshore investment program designed to diversify revenue streams and secure end user demand for AWB products and services. The focus is on assets that will provide growth opportunities in the areas of flour milling, food processing and grain trading. AWB has interests in:

	Five Star Flour Mills ("FSFM") – Egypt	Five Star Feed Mills and Animal Production ("FSFMAP") – Egypt	Vietnam Flour Mills ("VFM") – Vietnam	AWB-Zennoh Ltd ("AZL") – Japan	Shenzhen Southseas Grains Industries ("SSGI") – China
Description	FSFM is the largest private flour mill and producer of premium grade flour in Egypt. It is also one of AWB's largest customers. AWB has 30% equity in this business. Operations consist of a flour mill with production capacity of 1,100 tonnes per day.	AWB has invested AUD3.7 million to secure 33% equity of FSFMAP. FSFMAP is a large, state of the art feed mill commissioned in late 2003. The facility can produce a wide range of feed products for the dairy, livestock and aquaculture markets.	AWB owns 17.5% of VFM – an investment of AUD5.4 million. The plant consists of a modern 450 tonne per day flour mill located just outside Ho Chi Minh city. The plant was commissioned in late 2001.	AZL is a joint venture commodity trading company established between AWB and Japan's largest agricultural co-operative – Zennoh. Established in March 1997, AZL was originally formed to expand AWB's sales of non-wheat products into the Japanese feed market. Following three successful years of trading canola, sorghum and other feed grains into Japan, AZL was awarded a wheat and barley import licence by the Japanese Government agency controlling grain imports, the Japan Food Agency. AWB has a 51% holding in AZL.	AWB owns 8% of SSGI– an investment of AUD1.9 million. Operations consist of a large integrated flour and feed mill. The plant began operations in 1992 and has established a strong brand, servicing the fast growing and premium market segments in southern China.
Recent performance (including impact of key drivers)	In 2003, FSFM's margins declined due to the ongoing devaluation of the Egyptian pound and high global wheat prices. However, due to its leading flour brands and premium market position, it actually increased its market share in the private sector.	FSFMAP commenced operations in September 2003. Initial sales demand is encouraging.	The mill is running at 45% capacity. The market is in its early stages of development and local competition is fierce and specifically targeting price.	AZL delivered another strong profit result in 2003 albeit that both margins and volumes were under pressure as a result of the Australian drought.	SARS had a negative impact on SSGI in 2003. Sales and profit were significantly lower over the full year. However, results for the last quarter of 2003 were strong and encouraging for 2004.
Strategy	FSFM will consolidate its strong position in the Egyptian flour market with the introduction of new differentiated flour based products including cake mixes and speciality flours.	FSFMAP will target and secure a leading position supplying the fast growing livestock and aquaculture markets in Egypt.	VFM is focused on developing a profitable and sustainable position in Vietnam's fast growing flour market. With strong support from AWB, it is well placed to produce quality and differentiated flour products.	AZL has successfully increased its wheat importing licence to 200,000 tonnes per day. In addition, AZL is targeting to expand its feed grain trading operations specifically with greater imports from both Australia and overseas.	Due to the fast growing demand in southern China, SSGI has embarked on an expansion program. The flour mill will be expanded to 800 tonnes per day in 2004 and another further expansion in 2006 is also planned. Once the expansion is complete, SSGI will be the largest single flour mill in China.

Growth prospects

AWB will continue to explore further investments globally. Such investments in offshore assets provide AWB with growth opportunities in the areas of flour milling, storage and handling, food processing and trading. In addition to delivering commercial risk adjusted rates of return, the investments have the potential to lock in end user demand.

Grain Technology



AWB's Grain Technology Division ("Grain Technology Division") comprises four separate yet interrelated investments:

- Agrifood Technology
- AWB Seeds
- Innovation and Research
- Quality Assurance and Hygiene.

The Grain Technology Division combines technical resources, expertise and investments in closely managed projects to develop technology based opportunities as platforms for further growth of AWB businesses.

Agrifood Technology

Agrifood Technology ("Agrifood") provides analytical laboratory services to assist AWB's marketing program and to generate commercial returns by utilising the facilities to provide services to external customers.

Agrifood operates in several arenas:

- food safety testing
- grain quality testing
- flour milling – test and commercial
- end products – evaluating components, quality, processes and new product development
- wheat variety testing.

The main area of interest is in evaluating the post harvest quality of Australian wheat crops to determine the quality characteristics of wheat and flour and their suitability for particular end products, on critical quality and processing aspects. End products developed for testing include noodles, breads, cakes, cookies and pasta products. A pilot scale instant noodle plant, commercial scale steamed bread plant, functional bakery and well-fitted test kitchen simulate the full range of processing conditions found in industry.

Agrifood is registered with the National Association of Testing Authorities and the quality system is certified to the ISO:9001:2000 standard.

The market for food quality and safety testing is dominated by two government testing bodies, the Australian Government Analytical Laboratory and the State Chemistry Laboratory. Due to their linkages with government, they are successful in gaining government business. Other major competitors include AMDEL, Dairy Technical Services, Symbio Alliance, the Bread Research Institute, and Bernard Heath and Associates.

Growth in Agrifood will be derived predominantly from two sources:

- Increased testing by AWB to provide improved detail as backing for quality differentiation

- Testing for companies in the grains industry, food manufacturing, grain breeding and other related businesses.

Further development opportunities may also arise in the form of alliances.

AWB Seeds

This business commercialises high performance seed based genetics for broadacre crops, developed by public and private breeding programs, including the Longreach Plant Breeders joint venture between AWB and Syngenta. Revenue is generated by managing Plant Breeder Rights protected varieties, with the three streams being end point royalties on licensed varieties, collection services for third parties and seed sales.

The business performance has been encouraging since its restructure in 2002, which shifted the revenue focus to end point royalties and altered the cost structures by streamlining the business model. Seed sales in 2002-03 climbed to 32% more than the highest volume for any of the previous three years and sales this year have already exceeded the 2002-03 volume. The end point royalty revenues in 2002-03 were significantly affected by the severely reduced grain receivals, but the results this year to date support a confident outlook and confirm the underlying strength of the business.

AWB Seeds' strategy is to focus on broadacre crops by supplying locally grown and processed seeds at the lowest cost to growers, and centralising the marketing activities. Growth is backed up by strengths in:

- maximising grower take-up of new varieties
- capturing revenue from end point royalties
- majority market share of wheat varieties released since 2000
- sound, commercial relationships with breeding companies.

Innovation and Research

AWB's investment in Innovation and Research ("I&R") has averaged nearly AUD7.0 million per annum over the past three years and in 2003-04 will be close to AUD8.0 million, spread over more than 25 market targeted projects and joint ventures. The research projects range in complexity, strategic nature, timeframes for delivery and in their prospects for a business outcome. AWB invests in this research, knowing that the majority of expected outcomes will be realised but, in some cases, the rapid evolution of markets may take alternative courses to those originally forecast. Nonetheless, investment in I&R is critical to the long term future of grain marketing activities and will continue to operate over the horizon to develop business opportunities.

The two major AWB investments in I&R are Graingene (AUD2.0 million per annum from 1999 to 2005), a joint venture with CSIRO, Grains Research and Development Corporation, and Syngenta to develop germplasm and novel traits. The products from Graingene are able to be used by the second largest I&R investment, Longreach Plant Breeders, a joint venture between AWB and Syngenta to breed agronomic and quality traits into superior wheat and barley varieties.

The combination of these two ventures creates a rapid path to market for superior grain varieties developed from both Australian and international germplasm, using the most up to date technical expertise and tools to provide the best varieties in the fastest time. The ventures also facilitate the provision of international germplasm and world-leading genomic technology, both of which are important for the long term competitiveness of Australian farmers.

I&R also manages many of the research projects on behalf of AWB and AWBI and facilitates the commercial take-up of the research outcomes.

Much of the research is conducted via arrangements with external partners, along with several internal projects, and a large proportion of the research expenditure is eligible for research and development tax concessions.

I&R also identifies new business opportunities and projects with a view to developing and securing markets for Australian grains. In maximising the leverage for the I&R investment, AWB will continue to involve third parties and create partnerships where necessary to have the best possible expertise and resources available, whenever possible.

Quality Assurance and Hygiene

The Quality Assurance and Hygiene ("QA&H") team provides services to support the marketing of grain, most notably for AWB National Pool exports, ensuring the integrity of grain received and supplied to all customers. The QA&H activities represent a clear connection between the market needs and the signals to growers, through the standards that are set and the testing undertaken to ensure the optimum quality grain parcel reaches the millers and processors.

The QA&H personnel has responsibility for establishing annual wheat receival standards that reflect the needs of the market place, while meeting international food safety and quarantine standards. The task during harvest is then to institute monitoring and data collection processes at receival sites to ensure the quality of grain being received meets the wheat receival standards.

A major sampling and testing regime is conducted, both in storage and during outturn, to provide the necessary data to enable grain selection according to customer requirements. The samples are analysed by Agrifood Technology and other laboratories as required, with thousands of samples analysed for various quality parameters each year.

The investment in QA&H is set to develop as Australia's customers continue to demand tighter specifications and as their expectations grow for capabilities that are considered to be optional extras today. Development is expected in the market's requirements for traceability of each grain parcel, to be able to trace the heritage, seed quality, sowing, growth and harvesting conditions of the grain, from breeding through to delivery at the customers' silos, wherever in the world they may be. This development is being driven back from the retailers, through manufacturers to raw material suppliers, and will impact all participants in the grains industry.

Growth prospects

In light of the acquisition of Landmark, AWB is currently reviewing its technology, and research and development operations across the AWB Group with the view to consolidating businesses and achieving benefits.