

AACL GRAIN MARKETING

FARMER CONFERENCE CALL

17 October 2008



The aim of this paper is to provide a better understanding for Farmers of the processes involved in setting grain values with AACL. This information is not to be seen as advice to Farmers as to how they should price their grain. Whilst reasonable endeavours have been made to ensure the information is correct, there is no guarantee that this it is accurate or complete.

The grain valuation process directly impacts on the magnitude of AACL Farmer Bonuses - where achieved - and will also impact on the timing of these payments.

1. Please be clear on grain pricing arrangements within AACL

If you are unclear on any of these points, please call AACL to clarify your position.

- a) Please be clear whether you're Benchmarking or not:
 - **Benchmarking** – if you nominated by Sept 19 and did nothing else, then that's the method of grain pricing for *all* your tonnes.
 - **AACL Managed Pool** – you're in it either because you had nominated the balance of your Benchmark tonnes after originally nominating for Benchmarking, or by Sept 19 you hadn't nominated for anything so your grain defaulted into the Pool – this would have been confirmed to you.

 - b) When does Benchmarking need to be completed by?
 - Farmers must ideally complete benchmarking all tonnes produced within 7 days of their harvest completion and no later than January 31, 2009, unless otherwise negotiated.
 - This will enable the Farmer Bonus payment to be made in a timely fashion; as these bonuses can only be calculated once all Benchmark Pricing has been completed.

 - c) You never sell AACL grain yourself to a grain buyer

 - d) Irrespective whether you are in Benchmarking or the Pool, all ticket allocations to contracts are managed by AACL.
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2. Farmer Bonus workings

BONUSES WILL BE IN THE FORM OF CASH, NOT TONNES.

WHY?

- To set a net delivered value, we need to sell all the grain
 - Efficiency of bonus payments
1. Calculation
 - Net cash (or Pool equity) is applied against TV1 and TV2

 2. Timing of payment
 - **Benchmarking** – 30 days end of week (deow) of completion Benchmarking, to the degree that the product (Pool or Cash) fees are available for the Bonus calc.
 - **AACL Pool** – 30 deow of completion of Harvest
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3. Market view

Overall, AACL remains bearish about wheat prices in particular, although the view is that much of the downside could already have played out.

Some of the factors that we have taken into consideration are:

- Ocean freight rates continue to slide which is eroding Australia's freight advantage. This is manifest in softening basis levels, despite CBOT wheat futures having fallen dramatically.
- The cost of carrying grain, due to increasing capital costs, has increased. This will tend to place downward pressure on spot cash prices.
- Liquidity in the cash market has dried up with the global credit squeeze. All other things being equal, this will continue to reduce the buying strength and depth in cash markets.
- Much of the premiums that were built into US and international grain values were driven by concerns about government mandated increases in grain for fuel against a back-drop of critically low grain stocks. However, the latest USDA data suggest that the "fight for acres" between US crops is likely to wane, due to larger than expected carry-over stocks from 2008/09. On top of that there has been a sharp drop in oil values, which is hurting the profitability of ethanol plants.

All this suggests that:

1. Australian cash prices are likely to come under considerable downward pressure through harvest and
2. Any post-harvest bounce in prices will be "relative" and more likely due to harvest prices falling than post-harvest prices rallying.

4. AACL Number 2 Pool Announcement

AACL today has opened up a second Managed Pool, for both wheat and barley. The aim of this Pool is the same as the Number 1 Pool (which is now closed). That is: to the degree that AACL can manage it with pricing, aim to achieve a Farmer Bonus and a base level return for Investors.

The opening estimates for the AACL Number 2 Pool are as follows. Farmers should be aware that, until material commitments and then sales are made against these Pools, that their estimates will be more volatile than the Number 1 estimates below.

Wheat	\$310 - \$330/t FOB,	base price APW2 bin grade.
Malt Barley	\$310 - \$330/t FOB,	base price Baudin, Gairdner, Hamelin.
Feed Barley	\$260 - \$280/t FOB	

All based on Kwinana port, FOB and net of AACL's Management Fee of 2.5% of FOB.

Key points

- The number 2 Pool has the same charter as the Number 1 Pool.
- The guaranteed access date for this Number 2 Pool is Friday Oct 31, 2008. There is no guarantee the Number 2 Pool will be open beyond that date.
- As with the Number 1 Pool, the Number 2 Pools will have available a minimum of 80% of estimated net equity available at Harvest for the purposes of Farmer Bonus calculations.
- These Pools may or may not out-perform the Number 1 Pool.
- Who will these Pools suit? Clearly, being area based Pools, they ought to be considered by Farmers that wish to leave the pricing task to another party, so as they can concentrate on growing the crop.

5. AACL Number 1 Pool Update

AACL today updated its Number 1 Pool estimates. Grade spreads for wheat will be released by early November.

WHEAT **\$325 - \$335/t FOB**, base price APW2 bin grade.

Wheat Pool differentials

KWI	0
GER	- 3
ALB	- 8
ESP	-10
GEEL	0
PT KEM, NEWC	-5
PT ADEL, PT LINC	-10

MALT BARLEY **\$310 - \$320/t FOB**,

base price Baudin, Gairdner and Hamelin all ports, Stirling – Kwi & Alb only; Stirling - Ger & Esp is \$30/t lower.

FEED BARLEY **\$255 - \$265/t FOB**

Barley Pool differentials – applies to both Malt and Barley

KWI	0
GER	-15
ALB	-10
ESP	-20

6. Harvest Management

Amongst other things, AACL today mailed out to all Farmers the Harvest Management Policy. Some pertinent points:-

WA CBH card

- Farmers that are new to the project this year have been sent a form by CBH for ordering the required share-crop AACL card.
- Farmers that were in the AACL Project prior to this year are requested to use the same card.

Eastern states NGR card

- AACL today posted all eastern states Farmers their respective NGR cards.
- These are to be used for all deliveries of AACL contracted crops, with “warehouse” selected.

Please let us know when you start harvest

- This enables AACL to ensure that all systems are in place such that grain stocks can be efficiently managed and Farmer Bonuses paid in a timely fashion.