

AACL GRAIN MARKETING

FARMER CONFERENCE CALL

19 September 2008



The aim of this paper is to provide a better understanding for Farmers of the processes involved in setting grain values with AAACL. 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 AAACL Harvest Bonuses - where achieved - and will also impact on the timing of these payments.

Key points

At the outset, two key points need to be made:

1. The Farmer **NEVER** sells the AAACL grain to a grain buyer. This grain does not belong to the farmer and is therefore not theirs to sell. ALL sales on AAACL grain, whether they are a result of the Benchmark Pricing process or through sales made on behalf of the AAACL Managed Pool, are made by AAACL, to the respective grain acquirers.
2. Importantly, Farmers must register by **TODAY - FRIDAY 19 SEPTEMBER**, to either be part of the price setting decision by setting Benchmark price levels on set tonnages, via the BENCHMARK PRICING process OR to use the AAACL Managed Pool. If not registered by that time then by default the pricing management will revert to the AAACL Managed Pool.

This second point does not mean that AAACL is asking Farmers to go and price their AAACL wheat or barley TODAY; it's simply a request that Farmers formally advise today as to which method of valuing the grain they intend to use.

Details of how to commit, to either alternative, are provided in the Benchmark Pricing rules document, which can be found on our website at aacl.com.au.

Background

Things change. Until 2007, AAACL used the AWB National Pool as its benchmark for valuing grain produced within its Grain Co Production projects. In 2007, when it became apparent this was not necessarily a relevant benchmark, AAACL moved to manage the pricing itself. In April 2008, AAACL responded to farmer feedback and released a detailed process whereby farmers could have control over setting values on the AAACL grain, which directly impacts on the Harvest Bonus calculation. This is known as **Benchmark Pricing**, and the rules governing this process are provided at our website:

In August 2008, in response to many farmers who preferred that AAACL manage the grain pricing, the AAACL 2008/09 Managed Pools for wheat and barley were released. This unique Pool product is area based, and is designed to enable Farmer's to focus on growing the crop with the knowledge that an experienced team is managing their price exposure, on the ENTIRE CROP, not just a part of it:

Therefore, going into harvest of the AAACL 2008 crop, farmers have 2 clear choices:

1. Leave the grain pricing management to the total discretion of AAACL via its Managed Pool

or

2. Be part of the price setting decision by setting Benchmark price levels on set tonnages, through AAACL via the BENCHMARK PRICING process.

THE TWO ALTERNATIVES IN MORE DETAILS

Method 1: The AACL Managed Pool

The Pool's aim

Our stated aim is to deliver for the farmer a harvest bonus, to the degree that we can do that by managing the price.

What that means in practise, is that the Pool Management team will develop and implement, through actively taking account of prevailing seasonal conditions and market fluctuations, a strategy that will, to the degree that we can do that by managing the price, protect TV1 and provide the opportunity to exceed TV1.

Product Features

- The unique feature of the Hectare Based Pool is that there are no washouts
- AACL's Management Fee is based on the value achieved for the crop, not a set fee.
- All bin grades are accepted.
- Bin grade payments will be flat-priced, with no increments for protein, moisture or screenings
- FOB estimates are provided monthly
- Monthly live updates from the Pool Manager as to market conditions and strategy

Pool pricing

In reality there is a Pool being run over each port zone for farmer participants. The Pool estimates updated today are as follows. These are quoted after deducting AACL's Management Fee of 2.5% of FOB. These estimates are next due to be updated on Friday, October 17. Grade spreads for wheat will be announced by early November.

WHEAT

Down \$10/t \$350 - \$380/t FOB, base price APW2 bin grade.

Wheat Pool differentials

KWI 0
GER - 3
ALB - 8
ESP -10
GEEL + 5
Pt KEM +10

MALT BARLEY

Down \$15/t \$305 - \$335/t FOB,

Base price Baudin, Gairdner and Hamelin all ports, Stirling – Kwi & Alb only; Stirling - Ger & Esp is \$15/t lower.

FEED BARLEY

Down \$25/t \$255 - \$285/t FOB

Barley Pool differentials – applies to both Malt and Barley

KWI 0
GER -10
ALB - 6
ESP -10

Method 1: The AACL Managed Pool (cont'd)

Payment timing

The Pool is being actively managed, with significant sales in place in port zones where the Pool Management Team is bearish about prices. This means that:

- Within 30 days of completing harvest, farmers will receive 80% of the Pool estimated equity.
- These Pools will then be finalised by the end of April 2009.

As such, these Pools will have payment profiles that are closer to cash contracts than the traditional 12-15 month Pools that farmers have been used to. This pricing strategy has been taken as a result of AACL listening to farmer feedback that they need as much cash at harvest as possible.

Performance

- A hectare based pool is very different from managing a fixed tonnage pool as the actual size of the pool is not known until harvest is completed.
- AACL does not claim that the Hectare Based Pool will outperform other managed pools in any given season because it is not realistic or possible to do so each year.
- AACL will provide you with ongoing and hands on management of your price risk which is difficult for farmers to achieve on their own.
- Our stated aim is to deliver for the farmer a harvest bonus, to the degree that we can do that by managing the price.

How to sign up?

Call Shaun Marwick on (08) 9217 3763 or Matt Rigg on (08) 9217 3754 or complete amended Benchmark rules from our website, aacl.com.au

Method 2: Benchmark Pricing

This alternative method for placing values on AACL grain allows farmers the ability to exercise control of the price set. To participate in this process, farmers must register by completing and signing the Benchmark Pricing Rules document. This can be obtained from aacl.com.au or by calling Matt on (08) 9217 3754 or Shaun on (08) 9217 3763.

Outline of the process

Full details of this process are provided in the Benchmark Pricing Rules document.

In short - this process involves the farmer selecting accredited products from accredited grain acquirers, to set a value on tonnage within the limits administered by AACL.

Accredited grain acquirers

When accrediting acquirers, AACL looks at a number of factors. They include determining the counterparty credit risk as well as the ability of the respective acquirers to provide payment information in a timely and efficient manner (soft format of data) such that Harvest Bonuses can be calculated and paid on time.

Accredited products

Cash – an up to date list of accredited cash acquirers for wheat and barley is provided in the Benchmark Pricing rules.

Pools – additional to what is in the above mentioned Benchmark Pricing Rules document, namely that the Emerald Pool and AgraCorp “Professional Choice Protection Plus” Pool are accredited

The following Pools are now also accredited:

- AgraCorp/Grain Pool - all Pools
- Plumgrove – all Pools
- AWB Pool

For the purposes of simplicity, where there are a range of payment options, AACL will at its discretion select one payment method for all farmers selecting that Pool.

What tonnage limits on Benchmarking?

Again, these are outlined in the Benchmark Pricing Rules. The limits are based around conservative yield expectations through the season so as to avoid washout situations. Then, at harvest, farmers can benchmark up to all tonnes delivered into the bulk handler to that point.

CALCULATION OF HARVEST BONUSES FROM AACL

Key

The new methods for valuing AACL grain, which were introduced to provide farmers the ability to have input to the price setting, mean that Bonuses will not be paid in the form of tonnes this year; they will be in cash. That is, to calculate a net delivered value on all tonnes and therefore the bonus to be paid, implicitly involves ALL tonnes being sold to an acquirer. That in turn means that no tonnes can be returned to the farmer.

Importantly, this should make no difference to Farmers cash-flow at harvest.

Timing of payments of Harvest Bonuses

Due to the range of payment alternatives provided by acquirers, and pursuant to satisfying the Target Value Tier 1, Farmer Bonus payments will be made as follows:-

- A.** When cash benchmarks are selected for **100% of the tonnes produced**, the entire calculated bonus will be paid 30 days from end of week that benchmarking is completed on all tonnes by the farmer.
- B. For the AACL Pool**, the payment timing sees 80% of net estimated equity available 30 days from the end of week that harvest is completed, and the balance will be available by the end of April, 2008.
- C. For any other benchmarks that are not** 100% cash based, eg. Pools, bonuses will be paid in line with the payment timing associated with that respective benchmark. That means that where such Pools are selected as Benchmarks, bonus payments will not be completed until these respective Pools have been finalized. Put another way, the practice of previous years of finalizing bonuses by the April following harvest, will not apply if a Pool Benchmark other than the AACL Pool has been selected.

EXAMPLE

In the example below we compare a farmer that has a Target Value Tier 1 value (TV1) of \$100,000. The farmer has a contract that allows for 90% of above TV1 net delivered value to be paid as the Harvest Bonus.

In this comparison, we look at a Cash and 2 Pools outcomes, and assume they have the same ultimate net delivered value:

100% Cash Benchmark	100% Pool 1 Benchmark	100% Pool 2 Benchmark
\$300/t net cash	\$300/t net equity	\$300/t net equity
x 100% ... all available 30 days	x 80% Harvest Payment	x 60% Harvest Payment
x 500t	x 500t	x 500t
= \$150,000	= \$120,000	= \$150,000
(\$150,000 - \$100,000) x 90%	(\$120,000 - \$100,000) x 90%	\$90,000 is < TV1 ...
= \$45,000 paid within 30 days from end of week of completion of Benchmarking	= \$18,000 paid with 30 days from end of week of completion of Benchmarking (Harvest if the AACL Pool). Remaining equity paid 90% to farmer as it becomes available	... no Bonus paid at Harvest; paid when equity available from the Pool exceeds TV1. Further payments made to farmer as the equity becomes available