



Disclaimer:

The aim of these notes 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.

1. 2008/09 Farmer Payments

Harvest payments

- Harvest Payments (the final instalment of the base Grain Co-Production guaranteed payment) have now been paid.
- There are situations where Farmers won't receive a Bonus Payment, but have retained seed or have Benchmark fees. Under these circumstances, rather than make Harvest Payments and then ask farmers to send some of the funds back, AAACL has simply deducted the retained seed value and Benchmark fees from the Harvest Payment.
- RCTI's have been sent out for all Harvest Payments.

Bonus payments

Guidance on Bonus payments and the associated paperwork is as follows:

- All Farmers that have received a Bonus should have received the relevant written communication. This will enable farmers and advisers to reconcile the bonus calculation against the actual loads delivered and grain prices set. This paper-work includes:
 - Harvest Bonus Calculation - comparing net delivered grain value against TV1 and TV2
 - Delivery Details - on a load by load basis
 - Benchmarks taken (if applicable)
 - AAACL Pool figures (if applicable) and
 - RCTI.
- Any farmers that will not receive a Bonus payment will have received the above paperwork by the end of February.
- Reminder on timing. AAACL is aiming to make these payments
 - in the week that is 30 days from the end of week of harvest being complete (AAACL Pools); or
 - the week that is 30 days from the end of week in which Benchmarking was completed.
- The contract stipulated 45 days after harvest but our aim is to make payments at or just after the 30 days from end of week.

To access a copy of the Harvest Payment and Bonus Payment paperwork, simply contact AAACL on 13 000 GRAIN or (08) 9217 3777 and then dial "1" to reach Grower Services.

2. AACL 2008/09 POOL UPDATES

Pool finalisation

The AACL Pools will be finalised by the end of April 2009. This means that applicable Bonus payments for AACL Pool participants will also be made by the end of April 2009.

Wheat - AACL Managed Pool Nominated Estimated Pool Returns (NEPR)

The values below are the NEPR numbers for farmers that have **Wheat** in the AACL Managed Pools. They provide the basis for calculating what funds are available at harvest for the purposes of Farmer Bonuses, if applicable. They are also the current (*as at 20 February 2009*) Estimated Pool Returns (EPR's) for these Pools.

The AACL 2008/09 Pools consist of sales in cash terms. These sales have been arbitrarily grossed up for FOB costs at which point a management fee of 2.5% is calculated. The FOB estimates have been grossed up further for Finance and Underwriting. This enables Farmers to more accurately compare both the AACL headline FOB "equivalent" as well as Estimated Silo Returns to the estimated returns from other Pools.

Supply Chain	Port Zone – APW1/2 Estimates								
	Ger	Kwin	Alb	Esp	Pt Linc	Pt Adel	Geel	Pt Kemb	Newc
Pool #1 FOB "equivalent" <i>net of management fee</i>	327	330	323	322	323	329	337	326	323
Pool #2 FOB "equivalent" <i>net of management fee</i>	321	324	317	315	317	322	331	319	317
Less FOB	21.0	21.0	21.0	21.0	39.0	43.0	42.0	38.0	39.0
Less Finance & Underwriting	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Equals	Free In Store price				Delivered Port Price				
Less GRC levy	1.02% net farm gate (deducted from FIS price)								
Less Delivery Charges	11.65*				Not Applicable				
Less Freight rates	CBH Destination rates				NACMA**				
Less Skeleton Weed	0.30				Not Applicable				
Equals	Estimated Silo Return								

* CBH Tier 1 rate

** May change with AWB now applying its own freight rates

Grade	APH2	H1	H2	ASW1	AGP1	FED1	AUW1	AUH2	AUH3	SFT1	PWT	PNV1	ANW1	ANW2	HPS1	AH9
Spread to APW1/2	17	14	8	-20	-30	-90	-40	-5	-10	7	0	-7	-7	-25	-30	-85

Barley – AACL Managed Pool Nominated Estimated Pool Returns (NEPR)

The values below are the NEPR numbers for farmers that have **Barley** in the AACL Managed Pools. They provide the basis for calculating what funds are available at harvest for the purposes of Farmer Bonuses, if applicable. They are also the current (*as at 20 February 2009*) Estimated Pool Returns (EPR's) for these Pools.

The AACL 2008/09 Pools consist of sales in cash terms. These sales have been arbitrarily grossed up for FOB costs at which point a management fee of 2.5% is calculated. The FOB estimates have been grossed up further for Finance and Underwriting. This enables Farmers to more accurately compare both the AACL headline FOB "equivalent" as well as Estimated Silo Returns to the estimated returns from other Pools.

	Variety	Grade	Port Zone			
			Ger	Kwin	Alb	Esp
Pool #1 FOB "equivalent"	Baudin Hamelin Gairdner	Malt 1	265	280	275	270
		Malt 2	230	230	230	230
	Stirling	Malt 1	250	265	260	255
		Malt 2	220	230	225	220
	Vlamingh	Malt 1	250	250	250	250
		Malt 2	220	230	225	220
	N.A.	Feed 1	213.50	228.50	223.50	218.50
		Feed 2	198.50	213.50	208.50	203.50
		Feed 3	188.50	203.50	198.50	193.50
	Pool #2 FOB "equivalent"	Baudin Hamelin Gairdner	Malt 1		235	230
Malt 2				221	221	
Stirling		Malt 1		220	214	
		Malt 2		220	214	
Vlamingh		Malt 1		220	214	
		Malt 2		220	214	
N.A.		Feed 1		219	214	209
		Feed 2		204	199	194
		Feed 3		194	189	184
Less FOB, S/H			21	21	21	21
Less Finance						
Malt grades			4.00	4.00	4.00	4.00
Feed grades			2.50	2.50	2.50	2.50
Equals			Free In Store Price			
Less Delivery Charges			12.85*	12.85*	12.85*	12.85*
Less Freight			CBH Destination rates			
Less Skeleton Weed			0.30			
Less GRC levy			1.02% net farm gate			
Equals			Estimated Silo Return			

3. Market Outlook

Firstly some qualifications:

1. At this stage – it is too early, there are too many things to unfold that we can't predict – to provide **specific** guidance.
2. The range of possible price outcomes continues to be historically wide. Over the last 2 to 3 years we've seen price ranges over \$100/t from top to bottom. Market volatility remains and so does the potential for large moves either way.

Given that:

1. There are no major production issues; and
2. The global financial situation doesn't quickly recover, then

... our view is for a general erosion of grain prices in 2009.

More detail – Supply and Demand

- The USDA report on February 10 was relatively neutral. Whilst their estimates saw a large reduction in South American soybean and corn production, this factor had already been priced into global markets.
- Global stocks of wheat in particular are relatively abundant and are likely to remain a barrier to large rallies in wheat pricing, unless there are major production issues in 2 or more key producing countries.

Weather

- On the weather front for 2009/10 production, and it's still early days, there are no **major** concerns other than China.
- China is thought to have reasonable buffer stocks and is actively seeking to build reserves through current purchases, such that these weather concerns are translating through to a relatively small impact on forward values at this point in time.
- There are some concerns about continued dry weather forecast for US HRW areas as wheat begins to move out of dormancy.
- A neutral La Nina-El Nino transition, for what it's worth, indicates low chance of a major drought in the northern hemisphere.

Grain Marketing arrangement in 2009

The following is general guidance on how grain prices will be set in 2009. More detail will be provided by next month's conference call.

Context

- The "Grain Co-Production" (GCP) product is by nature an income protection product, whereby guaranteed farmer payments are made.
- There is no recourse on those payments, irrespective of the crop result. Embedded in those payments is a grain price.
- As manager of the Project's grain price, AACL is charged with the responsibility of protecting against price risk on this non recourse funding.
- As such, AACL will actively manage the grain pricing in the following context:
 1. The aim is to deliver for the farmer a bonus, to the degree that we can do that by managing price. At the same time, we aim to achieve a base level return for Investors.
 2. Price management will reduce the price risk that GCP farmers are exposed to.

Key Characteristics of how grain prices will be set in 2009 are as follows:

1. **Price Management** will be managed solely by AACL. Benchmarking will not be available this season.
2. **Aim:** to deliver for a farmer a bonus, to the degree that we can by managing price.
3. **Area based:** the unique feature is that AACL manages the price on **ALL** tonnes. This enables farmers to concentrate on the crop agronomy – "You grow it, We'll price it"
4. **Payments:** Distributions will be made as the Pool grain is sold and proceeds become available for the purposes of calculating net equity.
 - The duration of the price management will be at AACL's discretion – if the Pool Management Team has a view that better prices will be achieved by marketing tonnage in the second half of 2010 then the payment profile will extend out to 12 months or more from harvest.
 - At this early stage and for the purposes of providing cash-flow guidance to farmers, the aim will be to distribute up to 80% of the net price estimate at Harvest and 90% by April 2009. AACL Grain Marketing will provide guidance closer to harvest as to the specific timing of Distributions.

Footnote: Benchmarking

- A good idea in theory, very difficult to manage in practice.
- Why? The following example illustrates the challenges that Benchmarking present.

EXAMPLE:

Mid way through the season the price is \$350/t but the Benchmarking Farmer has not commenced any pricing. By harvest, the Benchmarking Farmer has still not benchmarked and the price is now \$300/t and falling. Based on the expected yield and current price the net grain value is now just on Target Value.

At that point in time the downside price risk lies totally with the investor. As such, AACL moves to prudently manage the Investor result by pricing the grain at \$300/t. Under the structure of Farmer Bonuses, the end result can actually see a worse price than \$300/t set for the investor.

To explain that, let's assume that in this example the Farmer has a 90% upside bonus. So, if AACL has priced the grain at \$300/t and the grain price subsequently moves to \$310/t, at which point the farmer then benchmarks, then there would be a Bonus payment due of \$9/t. The net result for the investor would be \$300/t less \$9/t = \$291/t.

Conversely if AACL does nothing and the price falls another \$10/t then the investor loses an extra \$10/t.