AACL GRAIN MARKETING

AACL Farmer Conference Call
13 March 2009

Disclaimer:

The aim of these notes is to provide a better understanding for Farmers of the processes involved in setting grain values with Australian Agricultural Contracts Limited (AACL). The information, calculations and projections contained in these notes are indicative only and do not constitute the provision of advice by AACL. Whilst AACL believes the information contained in these notes has a reasonable basis for being provided, neither ACCL nor any of its directors, employees or agents accept any liability for any action taken by any person in reliance upon the whole or any part of this document, nor for any errors or omissions contained in it.

1. 2008/09 Grain Marketing

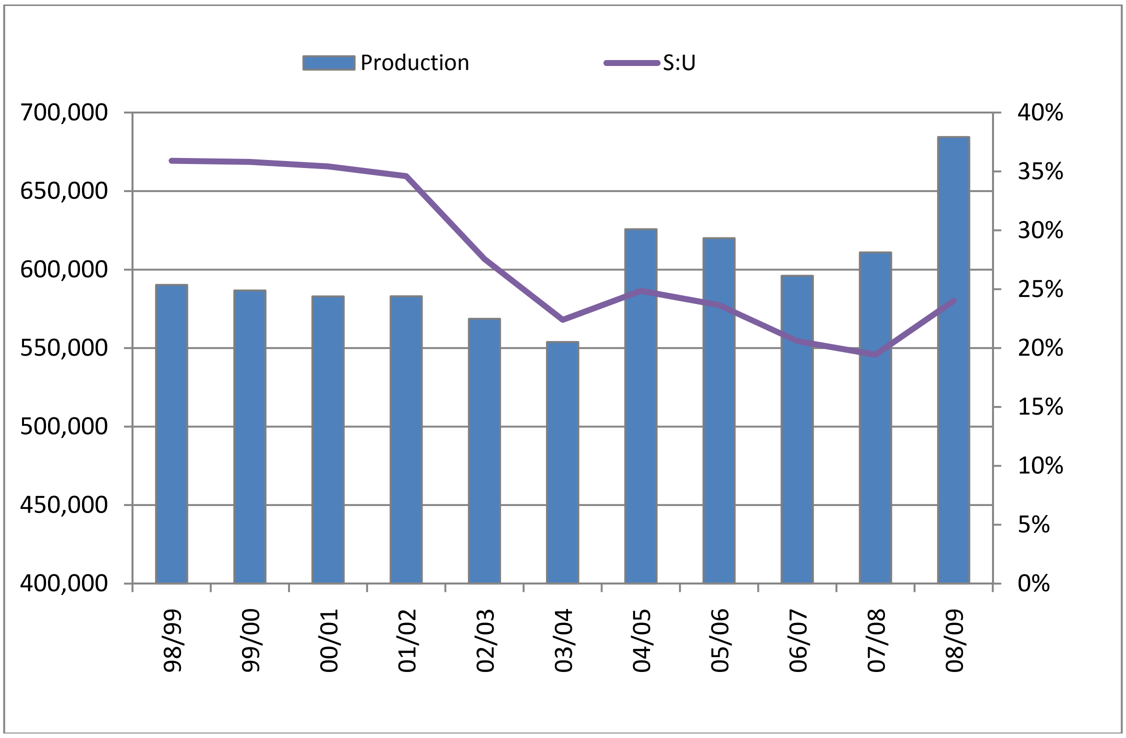
Market Outlook

Time has all but run out for any meaningful rallies in 2008/09 prices. Key importers are now relatively well covered and, with a new crop to be harvested from May onwards, will tend to stay on the sidelines.

The monthly US Department of Agriculture release of their estimates of world supply and demand estimates on Wednesday night added further bearish fundamentals, particularly for wheat.

Of note:

- The estimate for 2008/09 world ending stocks (as at May 31, 2009) was raised by 5.89 million metric tonnes to 155.85 MMT. This number is up 35.71 MMT on last year and largely reflects the largely year-on-year increase in global wheat production – as depicted in the chart below.
- The estimate for US ending wheat stocks also was revised up, which will weigh on the respective futures contracts traded there.



Updated 2008/09 Pool estimates

Detailed 2008/09 estimates showing gross Pool estimates as well as all supply chain costs, are provided on the AACL Pools on page 3 and 4.

Wheat

AACL's Pool estimates for the 2008/09 Wheat Pools remain unchanged and are not likely to be materially changed until final quality and allocation of stock to sale contracts are completed and reconciled. For reference, in the Number 1 Pool APW2 delivered Kwinana port zone remains at $330/t FOB, Port Adelaide at $329/t, Geelong $337/t and Port Kembla at $326/t. Whilst nominal wheat values have remained reasonably constant, supply chain costs – particularly in WA – are at risk of increasing due to additional costs being incurred in getting grain to port in a timely fashion.

Barley

AACL's Pool estimates for the 2008/09 Wheat Pools remain unchanged. For reference, in the Number 1 Pool Malt 1 (Baudin, Hamelin and Gairdner) delivered Kwinana port zone remains at $280/t FOB; Feed 1 remains at $228.50/t FOB.

Pool finalisation

AACL has now sold close to 100% of the wheat and barley produced by AACL Pool participants, such that AACL is now re-calculating Pool prices, and reconciling the net payments received from respective acquirers against sale contract values such that Final Pool values can be set. This may see final Pool values move up or down from current estimates. Any change in the Pool value will impact on farmer bonus payments where applicable.

All 2008/09 AACL Pools will be finalised by the end of April 2009.

That means that further Bonus calculations will be provided at that time for Pool participants. For the **estimates** of what further payments you may receive in April, please call Grower Services on 13 000 GRAIN or (08) 9217 3777.

Pool true value

At the outset of these 2008/09 Pools, AACL put a clear rider on Pool expectations – taken directly from the Pool Flyer: "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".

That said, there are two areas that farmers and consultants should consider when comparing the AACL Pool returns to other Managed Pools:

1. Simply comparing two Pools on a headline Pool FOB value is misleading
2. Total supply chain costs, including finance and underwriting, are generally under-estimated.

On the first point, any comparison on Pools should put a value on the timing of the net payments received. The AACL Pools made 80% of net equity available at harvest and will be finalised by the end of April. This has meant that the AACL Pools have paid out ***more*** at harvest than any other Pools, and will have total net equity paid out ***faster*** than any other Pools.

On the issue of supply chain costs, and by that we refer to all the costs you need to convert a gross FOB payment back to a net cash payment, AACL provides a load by load statement detailing all applicable costs. When farmers participate in other Pools, they generally don't see all the costs presented in one statement, since some of the costs (receival fee and freight in WA) are billed to the grower by a different party – being CBH. As such, any calculation of Pool net values should take account of all the deductions, including finance and underwriting.

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" *net of management fee*	327	330	323	322	323	329	337	326	323
Pool #2 FOB "equivalent" *net of management fee*	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	225
		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 Feed grades	4.00 2.50	4.00 2.50	4.00 2.50	4.00 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. 2009/10 Grain Marketing

Grain Marketing within the 2009 Grain Co-Production Project
Grain Co-Production in 2009/10 consists of a base payment to Farmers which is fixed, and then a Bonus if the net grain value produced is greater than a pre-agreed "Target Value".

The main changes to the offer this year are:
1. There is only one Target Value, and 100% of net grain value above that goes to the Farmer.
2. The Farmer has 4 alternative levels of payment to choose from, each with its own Target Value.
3. AACL will be the sole manager of the grain price. Benchmarking is not available.

Base payment
The base payments, which are non-recourse given that the crop is planted, are set via a payment percentage (PVR) of average yield multiplied by price:

Payment = Agreed Yield x Net Silo Price x PVR%
eg. 2.5 t/ha x $270/t x 0.6 = $405/ha

The net silo price is simply the current forward cash price in the market for the respective crop, less applicable freight, and other costs which the Project pays for the farmer. At AACL's discretion, up to $10/t is taken from the forward price to cover costs such as industry levies and crop insurance.

AACL assesses forward prices each week, taking account what and how much can actually be sold at that point. Importantly, the grain price embedded in the payment offer has nothing to do with AACL Project Price management; it is simply whatever the current market for the crop is at the time the offer is made.

Farmer Bonuses
Once the crop is harvested, the net delivered value can be calculated and bonus payments made, where applicable. The net delivered value will be driven by two things:
1. How much and what grade is produced; and
2. The price achieved for the grain, as set by AACL.

In managing the price, AACL has the following aims:
1. To the degree that we do so by managing price, achieve a Bonus for the Farmer; and Base level return to investors.
2. To out-perform a Target Price such that an Investor Price Share is triggered, and at the same time the price achieved for the grain outperforms a challenging hurdle**.**

The "Grain Co-Production" product is by nature an income protection product, whereby guaranteed farmer payments are made. 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.

Project Price Payment timing
Further information will be provided closer to harvest, but for the purposes of calculating Farmer Bonuses, the following guidance is provided:

1. **Up to** 80% of the net Project Estimated Price will be paid at harvest.
2. **Up to** 90% of the net Project Estimated Price will be paid by April 30th, 2010.
3. Cash-out offers will be considered, beyond April 30th, 2010, on remaining Project equity.

4. How the 2009/10 Grain Price will be calculated and quoted

The Project Estimated Price will be quoted throughout the 2009/10 season as:

A. Net of AACL Management Fee; and
B. Net of the Investor Price Share, if applicable.

A. AACL Grain Marketing Fee

The **AACL Management fee** of 2.75% of FOB is comparable to other Managed Pools, except that AACL Manages a "Pool" of grain on an area basis, not on set tonnes, and there is no direct washout fee for participants. In contrast, most Managed Pools get farmers to commit a ***certain*** tonnage, which makes it far easier to manage than an area based price where the tonnage being managed is unknown. On top of that, farmers that participate in Managed Pools that are available at this time of year will have a washout cost if they are unable to deliver the contracted tonnage to the Pool.

For example, and remembering that the AACL Pool is area based and has no washout fees:

- **Emerald**: 2009/10 Management Fee of 2.2% FOB, and an "Out-performance" fee of 20% of Price above a Benchmark. Their "Benchmark" price is not yet specified. The Farmer commits firm tonnage and there is a Washout fee in their March Early Order of $18/t for wheat.

- **Plumgrove Protection Plus**: 2009/10 offer not out yet, but in 2008/09 it had a Management Fee of 2.5% of FOB, and "Out-performance" fee of 10% of any Pool return more than $50/t above the "price to protect". Again, the farmer commits firm tonnage to this product. To date there is no guidance yet on washout fees for 2009/10, but last year the guidance at this point was approx $50/t.

B. Investor Price Share

The **Investor Price Share** has been introduced this year in lieu of the Farmer now receiving 100% of all grain value above Target Value. In short, it involves a challenging hurdle before the Investor Price Share is applicable, and is designed to drive AACL Grain Marketing to out-perform – this is in both the investors and farmers interests.

Further details on how the Investor Price Share is calculated are provided on the next page.

1st estimate of the 2009/10 Project Price for Wheat in GCP
Based on the AACL Grain Marketing view of the market and estimates of the Grain Co-Production 2009/10 crop size (remembering that this is an area based "Pool"), the current Project Estimated Prices for Wheat using reference grade APW2 (WA) or APW1 (all other states) are as follows:

Ger	Kwin	Alb	Esp	Thev	Pt Linc	Wall	Pt Giles	Pt Adel	P'land	Geel Melb	Pt Kemb	Newc
332 to 342	335 to 345	335 to 345	335 to 345	340 to 350	345 to 355	350 to 360	345 to 355	345 to 355	340 to 350	350 to 360	350 to 360	350 to 360

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The Investor Price Share is calculated as follows:

Step 1:
Average of the best APW cash bids, grossed up to FOB, on March 1, June 1, Sept 1 and Dec 1, 2009. That average is called the "Target Price".

E.g. the following are the best bids we could see at March 2 (all states other than WA) and 3 (WA – as Monday, 2nd March was a public holiday) from respective acquirer bid sheets, but they will be verified by an independent analyst.

	Kwin	**Pt Adel**	**Geel**	**Pt Kemb**
FIS/Del Port price	322	303	307	307
FOB costs*	21	43	42	38
Best bid in FOB terms	343	346	349	345

** We will use the FOB costs within our Project Price model to gross these prices up to a FOB value; the values used here are those that applied to the 08/09 AACL Managed Pools.*

Step 2:
Multiply that average number from Step 1 by 1.025% - that's the price level that the Project Price must equal or exceed, so far, for the Investor Price Share to apply. Using the Kwinana example above:
Kwin = 343 x 1.025 = $351.575; Pt Adel = 346 x 1.025 …

Step 3:
If the Project Gross Price, being the price net of AACL's Grain Marketing Fee, is equal to or greater than the Target Price multiplied by 1.025, then 2% of the Project Gross Price is paid to Investors. The resulting price, net of AACL's Grain Marketing Fee and net of any applicable Investor Price Share, is referred to as the "Project Estimated Price" and will be the estimate quoted to Farmers and Investors alike.

Using the Kwinana port zone example above, the Target Price for the Investor Price Share is $351.575/t FOB. Two examples are illustrated below.

Example 1:

The Project Gross Price is $365/t FOB and therefore is *greater than or equal to* the Target Price *multiplied by* 1.025. Therefore the Investor Price Share calculation is applicable.

How the "Project Estimated Price" is calculated		**Example only**
Step 1	If the Project Gross Price is equal to or greater than (Target Price x 1.025), then the Investor Price Share Calculation is applied.	The Target Price multiplied by 1.025 is calculated to be $351.575/t FOB. AACL achieves a Project Gross Price of $365/t FOB. This is greater than $351.575/t therefore the Investor Price Share calculation is applicable.
Step 2	Calculate the Investor Price Share as follows: If the Project Gross Price is greater than or equal to an amount 2.5% higher than the Target Price, then the Investor Price Share ***equals*** the Project Gross Price *multiplied* by 2%.	$365/t x 2% = $7.30/t
Step 3	Calculate the Project Estimated Price as follows: The Project Gross Price *less* any applicable Investor Price Share.	$365 - $7.30/t = $357.70/t

In the above example, the Project Estimated Price – or "Pool" price as referred to by Pool Managers - that AACL would quote would be $357.70/t.

Example 2:

The Project Gross Price is $350/t and therefore is *less than* the Target Price *multiplied by* 1.025. Therefore the Investor Price Share calculation is not applicable.

How the "Project Estimated Price" is calculated		**Example only**
Step 1	If the Project Gross Price is equal to or greater than (Target Price x 1.025), then the Investor Price Share Calculation is applied.	The Target Price multiplied by 1.025 is calculated to be $351.575/t FOB. $350/t is less than $351.575/t therefore the Investor Price Share calculation is ***not*** applicable.
Step 2	Calculate the Investor Price Share as follows: If the Project Gross Price is greater than or equal to the Target Price, then the Investor Price Share ***equals*** the Project Gross Price *multiplied* by 2%.	Target Price has not been achieved therefore no Investor Price Share is applicable.
Step 3	Calculate the Project Estimated Price as follows: The Project Gross Price *less* any applicable Investor Price Share.	$350 - $0/t = $350/t

In the above example, the Project Estimated Price – or "Pool" price as referred to by Pool Managers - that AACL would quote would be $350/t