

23 July 2010

### **2007 GRAIN CO-PRODUCTION PROJECT - 2009 Season Review**

This report has been prepared by AACL as the Project Manager of the 2007, 2008 and 2009 Grain Co- Production Projects.

The 2009 season performance has been impacted by two main factors; Price and Production.

---

#### **GRAIN PRICES**

The 2009 season started out with record price levels for Australian grain off the back of historically high international prices and a weak Australian dollar against the US dollar. These price levels were used to determine the payment levels to farmers to grow crops for investors. Internationally, the wheat market has been a “supply driven” market with high prices reflecting low supply. High grain and oilseed prices for the past two years stimulated production around the world, particularly for wheat, and the subsequent increase in supply pressured international prices lower. As the supply issue was addressed with rapidly rising production, prices retreated. As a country that exports most of its wheat, the rise in the Australian dollar also reduced returns for all Australian growers in 2009.

Traditionally it would be expected that the reduced yields and quality suffered in Australia in 2009 would lead to higher prices due to the resulting imbalance in supply and demand, such as was seen in 2007 and 2008. However, there are times when world production is large enough that a low production year in Australia does not stimulate price and this can be exacerbated by a rising Australian dollar. It is this combination of factors which occurred in 2009.

A price risk management program, undertaken by the Project Manager (AACL) from the time offers are accepted by the contracted farmers, follows a mandate on hedging and physical grain sales. However, due to market and more importantly, production risk, it is not possible nor is it prudent to hedge all price risk from this point in time. Hence, large moves in the underlying markets that affect Australian grain prices will also affect the price achieved by the AACL pool of grain.

The chart below shows the change in the Australian dollar over calendar year 2009. If a steady US dollar price for wheat of approximately US\$200 per tonne was maintained, then the movement in the Australian/US dollar exchange rate from 0.6300 to 0.9400 (as occurred between March 09 and December 09) represents a loss of value of over AUD\$105 per tonne.



Source: Oracle Data / MetaStock

The price risk management undertaken by AACL was able to approximately halve this effect on the Project's pool. Generally, price levels when offers were made to farmers for the 2009 crop were in the order of AUD\$330/t Free On Board (FOB). **While all the grain is yet to be sold and thus a final result is yet to be determined**, the current Estimated Pool Return (EPR) for the 2009 pool is AUD\$262/t FOB. This is a strong result, with most other industry players achieving lesser results as the table below illustrates.

2009/10 Australian Premium Wheat EPR FOB	AACL	ABB	AWB	CBH East Coast	Emerald	GrainCorp Harvest	CBH Grain Harvest	Plum Grove Harvest
Australian FOB Average	262	245	242	251	250	251	245	246

Source: AACL, ABB, AWB, CBH East Coast, Emerald, GrainCorp, CBH Grain, Plum Grove as at 14 June 2010

The chart below shows the price of wheat in US dollars as indicated by the Chicago Board of Trade December 2009 wheat futures contract. This market is considered to be representative of the Australian export price of wheat. As illustrated, there was significant volatility in this market most particularly around harvest (November/December).



Source: Oracle Data / MetaStock

In summary, the combination of relatively poor production that was not offset by an increase in prices, caused the fall in value of the 2009 Project pool. Hedging by AACL, however, did protect investors against some of the fall in price and AACL’s performance in this was in line or superior to results from other major players in the industry.

### PRODUCTION SUMMARY

Although overall production across Australia in 2009/10 was slightly higher than the previous season, it was still below average and quality was generally down due to adverse weather effects. Each state in which AACL has contract farmers experienced different weather conditions and thus results.

Western Australia experienced a mixed winter rainfall pattern with some areas of the northern Grain-belt experiencing above average rainfall, while in the south east below average to very much below average. Hot temperatures and dry October conditions, plus wetter conditions in November when harvest was underway, all combined to produce lower yield results than anticipated.

AACL contract grain production estimates for the 2009 season were generally forecast to be near average through to the end of September 2009. However dry conditions, and in particular, significantly warmer weather during mid to late October had a negative impact on the realised crop yields of contracted farmers. Grain size and weight were also impacted by these weather conditions such that production estimates prior to harvest were generally 20% higher than what was achieved.

Overall, a disappointing seasonal production result was achieved, driven by severe negative spring weather conditions in the major crop growing regions where many of the Project’s contracted crops were located.

---

## COMPANY ANNOUNCEMENTS

### *AACL Executes Funding Agreement with Glencore Grain Pty Ltd for 2010-11 Season*

AACL Holdings Limited, the parent company of AAAC, (ASX code: AAY) has successfully executed a \$28.8 million funding and marketing agreement with Glencore Grain Pty Ltd (Glencore) for the 2010-11 season.

Under the terms of the agreement, Glencore will provide funding for AAAC's Grain Co-Production contracts for 2010. AAAC and Glencore will then partner to market the 2010 season grain, utilising Glencore's worldwide marketing expertise. Visit [www.asx.com.au](http://www.asx.com.au) and follow the links to read this ASX Announcement in full.

### *Appointment of Peter McEwen as Executive Chairman*

The Board of AAAC Holdings Ltd is pleased to announce the appointment of Peter McEwen as the company's Executive Chairman and Chief Executive Officer effective from 26 July 2010.

Mr McEwen has been chairman of AAAC since November 2009 and brings over 30 years of experience in the Western Australian agricultural industry. Most recently, Mr McEwen has been the Chief Executive Officer of Summit Fertilizers, a position he has held for the past 18 years.

Mr McEwen's initial priorities will be to work with the executive team at AAAC in positioning the company and its products for future growth. This will also involve the further development of the key strategic relationship with Glencore Grain. Visit [www.asx.com.au](http://www.asx.com.au) and follow the links to read this ASX Announcement in full.

---

## FINAL SEASON REVIEW, TAX POSITION STATEMENTS & DISTRIBUTION PAYMENTS

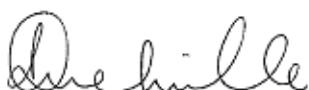
As 2009 was the last season for growing grain for investors in the 2007 Grain Co-Production Project, this is the final season review.

Following this correspondence, year end Tax Position Statements for the financial year ended 30 June 2010 will be sent within the next few weeks. Further distribution payments will be made over the next 6 - 9 months as income from the final grain sales from the 2009 season are received.

AAAC and Macro Funds would like to take this opportunity to thank you for your investment in the Project.

For further information in regards to this report please contact your Financial Adviser or me on (08) 9217 3777 or [robert.melville@aacl.com.au](mailto:robert.melville@aacl.com.au).

Yours sincerely



**ROBERT MELVILLE**  
Director - Capital Markets