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P & L Cook and Partners**



Arable Monitor Farm (Angus)

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Report on Meeting held 9th December 2008

**WHEAT TRIALS, MARKET OUTLOOK AND
UPDATE ON FARM FINANCING.**

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TOP TIPS FROM MEETING

1. With the current low cereal market prices and little prospects for optimism, it may be worth considering carrying over all any unsold grain. It will depend on cashflow requirements, storage space, and grain quality.
2. There are opportunities now (and next few months) to fix borrowing at very low rates historically. 10-year loans can be obtained at under 6% interest rates.
3. All Banks are going to assess any requests for borrowing much more critically now.

1. INTRODUCTION

The meeting took place in the morning 9.30–1.00pm and was supported by 38 members present. The programme was as follows:

Programme;

1. Wheat establishment trial
Carmyllie Hall, coffee
2. Combinable Crop Market Outlook
3. Getting the most from your Bank
4. Lunch
5. Practical demonstration of Autosteer Tractor

2. Wheat establishment Trial (Robert Galloway)

The Management Group have been heavily involved in deciding what trials to look at and in helping Hugh get them organised. Robert Galloway described the wheat establishment trials which were been undertaken.

The aim was to examine different min till systems / machines and compare it to traditional ploughing. The major advantage of min-till in this case would be to save time and when following potato crops, leave ground-keepers on the surface for the frost. (Ground keepers are becoming an increasing problem allowing PCN and disease carry over).

A handout describing the 3 plots and background to the crop is provided in Appendix 1.

Key points:

- There was no real difference in the costs between the systems (min-till vrs ploughing).
- The field was frosty when inspected by the Group, difficult to assess so different compaction levels.
- A key question is can you get effective drainage? There is something magic about ploughing, allows drainage and land to dry out.
- There are problems with meadow grass in the spring under min-till systems.
- The Lemkin Solitair 9 harrow / drill was more versatile and sophisticated.
- The crop and plots will be monitored throughout the year to assess differences, yields, etc.

3. Combinable Crop Market Outlook (Ian Keith)

Ian Keith, Frontier Agriculture Ltd, provided the Group with a market overview. See Appendix 2 for copy of Ian's presentation.

Key points:

- The total Scottish production 2008 harvest was 3.1MT, the largest for 20 yrs, which was surprising given the bad weather at harvest, particularly in the Borders, south.
- Scottish wheat production 980KT. More imports of milling & biscuit wheat expected due to poor domestic quality. Pushes more feed wheat on the market, however, still overall deficit – although less this year – 220KT
- Biggest global wheat crop ever – 672mt, stock levels will rise. Result of high world plantings due to high prices and favourable weather.
- The UK has 3.5MT exportable surplus – near a record – expect exports to achieve only 1.5MT by end Dec 08. However, the weakness of sterling £ and the collapse in shipping freight rates will help our competitiveness.
- Expect less wheat to be grown next year.
- Malting barley was imported from England as Industry took cover against bad harvest and low prices.
- UK Animal feed compounders using minimum barley and maximum wheat as price differential so low.
- Unclear how the world recession will impact on whisky consumption, may delay some planned investment around the world.
- Barley price near Intervention value €102 (£88/t delivered). Much of the barley may not be up to intervention specification without dressing.
- Low crude oil prices, impacting on the OSR market. 60% of EU rape oil goes for biodiesel production. Lack of demand for rape oil.
- With crop market and input prices being so volatile, important growers re-calculate GM forecasts and costs of production.
- Market for seed and fertiliser paralysed, farmers waiting for malting contracts to come out first. Trade worried lead to logistic problem and unable to get seed / fertiliser out in time for spring planting.
- May be worthwhile to carrying over old crop if have space and cashflow.

Group Exercise.

The Black's have still 350t of wheat and 400t barley to sell so the Group was asked what would they recommend the Black's do.

Wheat

- Wait for next spike and sell a third, and market the balance accordingly
- The farm has plenty storage so best to store till prices rise. Interest on capital very low – under £1 / mth

Barley

- Some members thought sell now the barley price can only get worse!
- Majority thought best to hold over. Possibility to sell at £100 in future.

Discussion

Accepted not all growers have the storage or have the flexibility for cashflow
There is an issue about the risk of storing grain for a year or more.

Quality will be important. Needs to be lower MC at 12-14%

4 Getting the most from your Bank

Neil Christie and John Robertson, Agribusiness Partners, Clydesdale Bank. Gave an update of farm financing issues and getting the most from your bank. A copy of their presentation can be found in Appendix 3.

Key points:

- Clydesdale Bank only 1 of 14 Banks in the world with AAA rating. Were not so exposed to recent crisis. Very little losses or write offs.
- All Banks are going to assess any request for borrowing more critically now. Not just security but ability to service. Historically money was very cheap, easy to access - that will never return again.
- Agriculture in a relatively good position in terms of attractiveness for lending. The construction industry, car industry, property, hotels / pubs, and service sector will be hardest hit.
- There is a limited amount of funds available for lending so has to be rationed. Now increased demand for cash flow.
- Could have deflation next summer especially in retail sales
- 70% of UK GDP is consumption – half of which is in retail sales
- Bank base rates now 2% (5.75% a year ago), expect rates to fall further 1.5% by Easter. In 2 yrs time expect base rate to be 4%
- A zero (0%) base rate is not good. Happened in Japan, and resulted in 10 yrs deflation.
- Also at 0% base rate can't attract savers so problems money supply.
- Fixed rates as low as ever been, good opportunity to fix.
- Still tight money supply. 'Libor' (London inter-bank offer rate) more important rate. It is set at 11am daily by 10 biggest banks.
- Unemployment will rise – 7%. Major impact on economy – the cost & impact on disposable income.
- UK now in recession. Economy in for a rough ride over the next year.
- Banks have a variety of tools to manage the risk of fluctuating interest rates or currency.
- Many farmers now taking out Euro accounts to receive their SFP. Big advantage when sterling £ falling in value against Euro €. With \$100,000 SFP = £13k over year. (Since meeting £ has nearly collapsed against €).
- Three main types of finance for farms; overdraft (short term); loans (longer term); and asset finance (machinery / plant purchases, HP Lease, etc)
- Interest rates assessed against 3 criteria; security; profitability (ability to service) and the person (experience / ability)
- Interest rates priced against base rates however, need to factor libor + 1% = base rate + 2% in most cases.

5 Project Business

Prior to the close of the meeting for lunch the following project details were intimated.

Arable Business Groups

Arable Business Groups (ABG) have now formed and are working to benchmark growing and production costs using HGCA's CropBench tool. It is not too late to join an ABG, please contact either the facilitators or anyone on the Management Group if you wish to join an ABG.

The Management Committee

The Management Committee consists of the following members:

- ❑ Robert Galloway
- ❑ Euan Grewar
- ❑ John McWilliam
- ❑ Thomas Pate
- ❑ Robert Ramsay
- ❑ Alastair Reid
- ❑ Mark Wilken

Please contact them if you have any comments or suggestions to make on the programme.

Date of next meeting

The next meeting will take place on Mid January 2009 again in the morning, starting at 9.30am. More details later.

6 Practical demonstration of Autosteer Tractor

After lunch, Robert Ramsay from Soil Essentials, provided a working demonstration of an autosteer tractor and GPS for interested members.

APPENDIX 1

Wheat establishment trial 2008-09

The purpose of the trials was to investigate various wheat establishment methods with the objective of determining an effective establishment method.

Min Till versus ploughing using three different establishment methods.

Background details

Field name: Tillyhoit
 Size 14.6 ha (36 ac)
 Previous Crop: Potatoes
 Current Crop Wheat Sowing date 14 October 2008
 Variety Robicus, home saved with single purpose seed dressing
 Seed rate 250 kg/ha 450 plants / M²

The three different methods:

The field was divided into 3 blocks. The first two-thirds of the field were cultivated with the farm's SUMO 5-leg subsoiler with packer roller. The remainder of the field was ploughed, including the end rigs.

Plot 1

Sub-soiled
 Sown using Lemkin Solitair 9, power harrow 4M disc coulters drill

Plot 2

Sub-soiled
 Sown using Kverneland power harrow with Accord I-drill, 3M disc coulters

Plot 3

Ploughed
 Sown with farm's 3M drill, Kuhn power harrow with Accord DA drill with Suffolk coulters.

Method	Speed (Km/hr)	Spot rate (ha/hr)	Field Rate (ha/hr)	Man Hrs per ha	Fuel Use (L/hr)	Fuel cost per ha	Total Cost per ha
Sumo subsoiler	8	2.4	1.9	0.53	23	£13.57	£60.00
KV 3M / Lemkin 4M	8	2.4	1.7	0.59	14.2	£8.38	£20.50
Total				1.12	37.2	£21.95	£80.50
Plough 5F	8	1.64	1.2	0.83	20	£11.80	£56.25
Kuhn 1-pass	8	2.4	1.7	0.59	14.2	£8.38	£20.50
Total				1.42	34.2	£20.18	£76.75

Field rate assumptions

Subsoiler 20% time lost turning
 Drills 30% lost turning & filling
 Ploughing 35% lost turning and finishes

Min Till uses 80% man hours Vs Plough but 1.8L /ha more diesel = £1.06 /ha

APPENDIX 2

Slide 1

Frontier Agriculture Ltd

Angus Arable Monitor Farm Meeting

9th December 2008

Ian Keith

Frontier Agriculture Ltd

Scottish Production 08/09

	'000t	%change 07/08
Wheat	979	+17.6
Barley	1918	+15.7
Oats	128	+ 3.5
OSR	117	-14.4

Slide 2

Frontier Agriculture Ltd

Scottish S & D 2007/8 and 2008/9

('000t)	2007/8 (Jul '08)	2008/9 (Sep '08)
Production	833	891
Imports (incl UK)	79	110
Flour Milling	(260)	(260)
Animal Feed	(265)	(290)
Fed on Farm	(45)	(80)
Distillers	(643)	(690)
Deficit	(301)	(319)

Frontier Agriculture Ltd

Wheat World Estimates (million tonnes)

	04/05	05/06	06/07	07/08 est	08/09 forecast	
					31.07	29.08
Production	628	621	598	609	662	672
Trade	110	110	110	109	114	115
Consumption	615	624	612	612	639	643
Stocks	142	138	125	122	144	151
year/year change	+14	-4	-13	-3		+28

Maize World Estimates (million tonnes)

	04/05	05/06	06/07	07/08 est	08/09 forecast	
					31.07	29.08
Production	713	696	708	785	759	774
Trade	76	79	87	100	90	88
Consumption	686	700	724	774	782	789
Stocks	135	132	115	127	103	112
year/year change	+27	-3	-17	+11		-15

Slide 3

Frontier Agriculture Ltd

Market Flags Global and Local

- Last year's high prices bought acres locally
- The UK has 3.5m tonne exportable surplus
- US, Canada, Australia, Russia + EU competing for limited International demand
- Market at a 2½ year low
- Scottish premium being squeezed
- £15/t premium for 09 crop
- Little upside potential without a major crop problem

Frontier Agriculture Ltd

Scottish Barley Supply & Demand

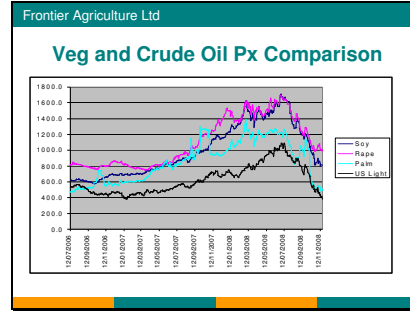
'000t	2007/08	2008/09
Production	1658	1918
Imports	-	75
H + I	750	825
Animal Feed	200	200
Fed on Farm	600	650
Seed	35	35
Exportable Surplus/Intervention	73	283

Slide 4

Frontier Agriculture Ltd

Market Flags Global and Local

- Large Scottish, UK + EU crop
- UK + EU Malt Barley buyers well covered
- UK Compounders on minimum inclusion
- Spasmodic spot export demand for feed barley
- Near Intervention parity



Slide 5

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Market Flags Global and Local

- Crude Oil stuck below \$50/barrel
- Lack of demand for rape oil
- Oil stocks building as biodiesel demand shrinks
- Currency is helping!!
- Price will remain under pressure
- Crude Oil holds the key

Frontier Agriculture Ltd

Frontier Gross Margin Analysis Scotland

WINTER CROPS	W/Wheat	W/Rape	W/Wheat	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley	W/Barley
	Mt/ha	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield
Yield (T/ha)	8.05	9.25	8.1	7.25	7.75	3.6	3.6	3.2	7.5	4.9				
OpValue (£/ha)	55	110	110	130	130	225	225	225	110	130				
OpOutput (£/ha)	1167.75	1077.50	891.00	942.50	775.00	916.00	916.00	1184.00	825.00	988.00				
Gross Output (£/ha)	1167.75	1077.50	891.00	942.50	775.00	916.00	916.00	1184.00	825.00	988.00				
Variable Costs														
Seed (£/ha)	65	65	95	67	65	60	42.25	60	65	75				
Fertiliser (£/ha)	330	330	375	340	345	330	330	330	330	330				
Sprays (£/ha)	126.5	126.5	126.5	95.5	93.5	104.5	104.5	104.5	66	66				
TOTAL VARIABLE	561.5	561.5	597.5	508.5	508.5	594.5	486.75	594.5	381	341				
GROSS MARGIN (£/ha)	606.25	486.00	293.50	434.00	270.50	439.50	421.25	669.50	444.00	247.00				
Fixed Costs (£/ha)	350	350	350	350	350	350	350	350	350	350				
Net Margin (£/ha)	256	136	-57	92	-79	54	71	320	94	-103				

Slide 6

Frontier Agriculture Ltd

Frontier Gross Margin Analysis Scotland

SPRING CROPS	S/Wheat	S/Barley	S/Barley	S/Barley	S/Barley	S/Oats	S/CPR	Has	Bars	Bars
	Mt/ha	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield
Yield (T/ha)	7.0	5.5	5.5	5.8	5.8	5.5	2.5	4.0	4.5	4.5
OpValue (£/ha)	135	150	140	145	130	110	255	220	145	130
OpOutput (£/ha)	945	810	810	840	580	605	680	680	650	540
Other Output (£/ha)	60	75	75	75	75	75	0	80	0	0
Residual N Value (£/ha)	0	0	0	0	0	0	0	25	25	25
Gross Output (£/ha)	1005	915	885	915	655	680	680	985	658	565
Variable Costs										
Seed (£/ha)	65	90	90	90	85	80	50	125	87	87
Fertiliser (£/ha)	211	220	220	225	225	250	250	130	130	130
Sprays (£/ha)	80	80	80	80	80	80	85	95	95	95
Other (£/ha)	11	8	8	8	8	8	8	9	9	9
TOTAL VARIABLE	467	468	468	468	468	388	388	338	341	341
GROSS MARGIN (£/ha)	538	467	459	459	197	292	292	607	337	224
Fixed Costs (£/ha)	350	350	350	350	350	350	350	350	350	350
Net Margin (£/ha)	188	117	89	109	-158	-58	-109	257	-14	-126

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Summary

- Fertiliser prices have eased
- Market paralysed
- Maltster terms in New Year
- Logistical problems ahead

Appendix 3

Slide 1

Getting the Best from your Bank - Economic Overview

Neil Christie, Associate Director
Treasury Solutions

Subprime Losses announced so far by Global Banks (partial table)

Wachovia	96.5	Deutsche Bank	11.8
Citigroup	68.1	Fortis	8.4
Merrill Lynch	68.1	ING	8.0
Washington Mutual	45.6	Credit Agricole	7.9
UBS	44.2	Societe Generale	7.6
HSBC	27.4	Barclays	6.9
Bank of America	27.4	Mizuho	6.7
National City	26.2	CIBC	6.4
J.P. Morgan Chase	20.5	Bayerische LB	6.2
Wells Fargo	17.7	HSBC	6.0
Morgan Stanley	15.7	IndyMac Bancorp	4.9
Lehman Brothers	13.8	Goldman Sachs	4.9
Credit Suisse	13.6	Lloyds TSB	3.9
IKB Deutsche	13.1	West LB	4.6
FRS	12.4	Dresdner	3.9

Source: Bloomberg

Slide 2

Spread between 3 month LIBOR and UK Base Rate - the 'credit crunch'

Source: Datastream

- ? Spread between Bank Rate and 3 month libor has averaged 70bp since early August 2007
- ? Spread reached a high of 170bp on October 10th.
- ? Has now fallen back to 115bp.

Spread between 3m LIBOR and Base Rate: before and after the 'credit crunch'

Source: Datastream

- ? Historically, 3 month LIBOR has averaged around 15 basis points above Bank Rate
- ? This spread has averaged ~70bp over the last 9 months but reached a high of +170bp.
- ? We do not expect this spread to settle below 60-75bp.

Slide 3

The UK economy is contracting...

Source: nabCapital

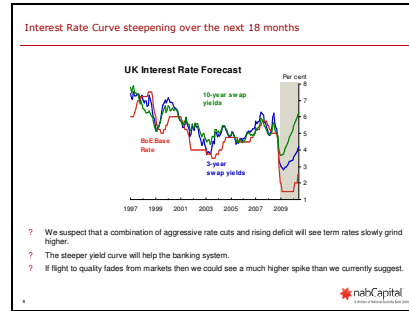
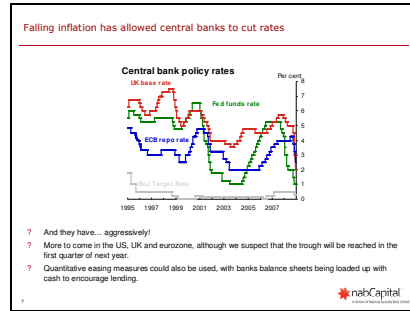
- ? There was no growth in the second quarter and activity fell by 0.5% in Q3, the first fall in output for 65 quarters.
- ? Annual growth has eased to 0.3%, its weakest level since 1992.

Inflation should ease rapidly in the coming months...

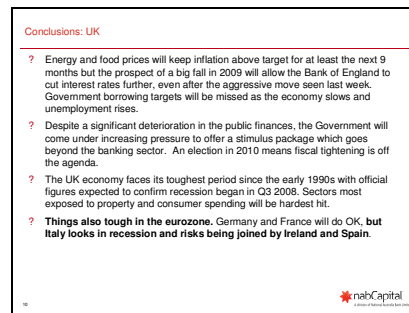
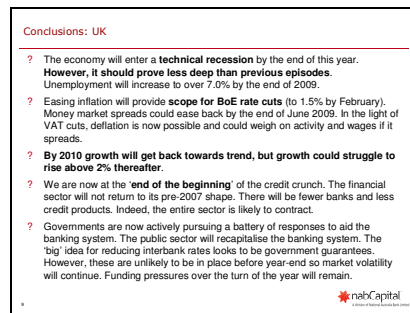
Source: nabCapital

- ? CPI inflation fell back to 4.5% in October. From here it should decline sharply.
- ? If the cut in VAT feeds through fully in December, CPI should fall by 0.9% on the month taking the annual rate down to 2.4%yoy. By September 2009, prices could be falling by as much as 1.2%yoy, although the removal of the VAT reduction in January 2010 will see prices then increase.
- ? The MPC should look through this, unless deflationary pressures start to gather momentum.

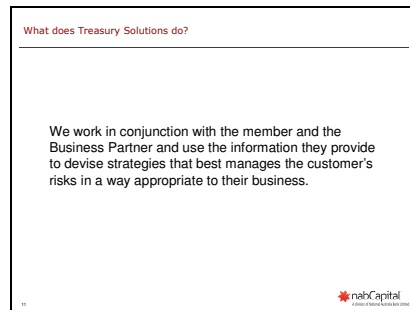
Slide 4



Slide 5



Slide 6



Slide 7

Interest Rate Risk Management

- ? Tailored Business Loans (TBL's)
 - Min borrowing £250,000 with Clydesdale Bank
 - Profile constructed to match the exact terms of the underlying funding
 - Flexibility is paramount
 - A number of different products
 - Can adopt a portfolio approach of products
 - Libor linked facilities
- ? Wholesale Products
 - Min amount £500,000 but Clydesdale Bank don't have to be lender
 - Same products available as for TBL's

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Interest Rate Protection – A Perfect Opportunity?

- ? Example Fixed Rates available
(Based on £500,000 over 15 years Capital & Interest Fully Amortising Loan + 2.00% Bank Lending margin)
- ? 1 Year Fixed Rate 2.60% (+ 2.00% = 4.60% 'all in rate')
- ? 3 Year Fixed Rate 3.10% (+ 2.00% = 5.10% 'all in rate')
- ? 5 Year Fixed Rate 3.60% (+ 2.00% = 5.60% 'all in rate')
- ? 10 Year Fixed Rate 3.90% (+ 2.00% = 5.90% 'all in rate')
- ? 15 Year Fixed Rate 4.00% (+ 2.00% = 6.00% 'all in rate')

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Slide 8

Foreign Exchange Risk Management

- ? Spot Transactions
- ? Forward Contracts
 - Fixed amount of currency on a fixed date at a fixed rate
- ? Currency Risk Management
 - Protection Rate (known worst rate)
 - Participation in favourable rate movements
 - Min transaction c.£1m per year (can be in small amounts throughout the year rather than in one lump sum)

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EUR / GBP Forecasts

- ? GBP is in the process of carving out a bottom vs the EUR. We believe the 0.86-0.90 range (1.1625 – 1.11) will come to be seen as a top (bottom) for GBP, but that this may take some weeks, perhaps months to form
- ? UK data remains chronically weak and this is unlikely to change for the next few weeks. BY spring next year, however, the worst of the bad news should be out
- ? In Europe, the lack of fiscal stimulus and a central bank that will lag behind others in cutting rates will leave the Euro Zone more vulnerable to a longer-lasting downturn

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Slide 9

Single Farm Payment (SFP) in Euro's

- ? Average exchange rate since 16th May 2005 – 0.71046p
- ? 12mth average exchange rate 01 Jan 08 to 08 Dec 08 was 0.78785p
- ? Trading band was 0.73190p to 0.87220p
- ? This equates to a 16% movement.
- ? On a €100,000 payment this is a potential movement of £12,606
- ? Forward Contract for SFP settling End January 2010 – 0.85420p

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Getting the Best from your Bank – Relationship Banking

John Robertson, Partner - Business

always thinking

Clydesdale Bank

Slide 10

Relationship Banking – Borrowing Structures

- ? Overdraft
- ? Loans
- ? Asset Finance

always thinking

Relationship Banking – Interest Rate Margins

- ? Security
- ? Profitability
- ? Experience

always thinking