Almonds
market report
Macquarie Agribusiness
Welcome

Welcome to your annual almond grower update from the Macquarie Agribusiness team.

The 2013/2014 season is on track to be a solid year for the Macquarie Almond Projects. The orchard has recovered from adverse weather conditions in previous seasons and all projects have produced greater than expected yields.

While the strong Australian dollar continues to impact almond prices received by Australian growers, US almond prices have continued to trend upward due to strong global demand. This upward price trend is anticipated to result in an approximate 25 per cent increase in prices received by Australian almond growers. Based on the early estimates from our processor and marketer, it is estimated that the almond prices received by the Macquarie Almond Projects will increase from $4.70 per kilogram received last season to $5.85 per kilogram expected this season. The combination of yield and price increases meant that no grower was asked to make a contribution payment in October 2013.

During pollination in August to September 2013, the orchard did not experience any extended periods of warm weather, which generally increases fruit set percentages. We currently expect this to have a minimal impact on the 2014 harvest yield, provided normal weather conditions prevail between now and the harvest.

The team on the orchard continues to focus on improving operations and completing orchard management activities. The Macquarie Agribusiness team remains focused on the ongoing management of the Macquarie Almond Projects and we thank you for your continued support.

1 Indicative prices are after processing, marketing and all hulling, shelling and transport costs.
2013 almond harvest update

During the second quarter of 2013, Macquarie Agricultural Services completed the harvest of the 2013 crop. All almonds were delivered to our processor and marketer, AlmondCo, where they were sorted and sized in preparation for processing, marketing and sale.

A return to more favourable weather conditions in the 2013 season resulted in greater than expected yields for all Macquarie Almond Projects. The almond harvest commenced in mid February and was completed in mid May. While there were limited issues with rain compared to the previous season, the harvest was interrupted by four rain events which suspended operations for short periods of time.

Across the Australian almond industry, the ‘crackout percentage’ of the Nonpareil variety has been lower than in previous years. This was attributed to a period of above average temperatures in early January which coincided with the kernel filling of the Nonpareil variety. The average temperature during the period was 42 degrees celsius, with temperatures reaching 46 degrees celsius. The crackout percentages for other varieties were closer to average, as their kernel filling period occurred after the period of above average temperatures.

A high proportion of the 2013 almond harvest were in the larger size ranges (22/24 and larger).

The graph below illustrates the size of Nonpareil almonds produced from the 2013 crop from all projects. The Macquarie Almond Projects have again returned a good percentage of larger almond sizes, with approximately 88 per cent of the Nonpareil crop being sized in the 24/27 range or larger. It is important to recognise that generally, higher yield productivity is counterbalanced with smaller nut sizes. With all projects producing record yields this season, our orchard operations team have been able to achieve high yields without significantly sacrificing kernel size.

Larger sized almonds typically command a price premium over smaller almonds. We expect this premium to be more prevalent this season with the US crop largely consisting of smaller kernels. The US crop was subject to unfavourable weather conditions and water restrictions during the growing period which resulted in their Nonpareil crop being heavily concentrated in the 25/32 size range.

The graph below illustrates the size of Nonpareil almonds produced from the 2013 crop from all projects. The Macquarie Almond Projects have again returned a good percentage of larger almond sizes, with approximately 88 per cent of the Nonpareil crop being sized in the 24/27 range or larger. It is important to recognise that generally, higher yield productivity is counterbalanced with smaller nut sizes. With all projects producing record yields this season, our orchard operations team have been able to achieve high yields without significantly sacrificing kernel size.

Macquarie almond Nonpareil nut sizing compared to all AlmondCo growers

Crackout percentage refers to the weight of the kernel after hulling and shelling as a proportion of the whole fruit.

Almond sizes are measured by determining the number of almond kernels per ounce. A lower number of kernels per ounce represent larger nut sizes. The 18/20 size category represents the largest nuts, while the 35 plus category representing smaller nuts.
Macquarie Almond Projects

The three main drivers of grower returns for almonds are price, yield and costs.

Prices and yields are influenced by a variety of factors, some of which are outside management control such as exchange rate fluctuations and weather conditions. Operating costs can be directly controlled by management, and to date costs have tracked in line or below budget without adversely impacting the productivity of the trees.

Macquarie Agricultural Services uses state of the art weed seeker technology which uses lasers to detect weeds on the orchard floor, thereby allowing chemicals to be applied only to weeded areas. This has allowed us to reduce the amount of chemical required to control weeds.

This control of operating costs required a dedicated effort by management, as the cost of major inputs such as fertiliser and electricity increased in recent years. Operating costs for the 2013/14 year are currently tracking to budget.

Operating costs were lower than expected for the 2012/13 season largely due to the reduced pruning and chemical costs. The reduced pruning cost was a direct result of the orchard management team controlling tree growth through water and nutrition management, while chemical costs were lower than expected due to the dry weather experienced throughout the season.

Macquarie commissioned an independent expert report on the orchard in September 2012 (the SRHS Report). The report provided growers with an assessment of the performance of the Almond Projects at that time, including commentary on targeted future yield and operating costs. A copy of the report is available to all growers through the investor website. We encourage growers to read the report if they have not already done so.
Project updates

Macquarie Almond Investment 2006 (including late growers)

The 2006 project now consists of 289.82 hectares of trees planted in 2006, following flood damage in 2011 which affected 23.18 hectares.

During the second quarter of 2013, Macquarie Agricultural Services completed the annual harvest of the fifth almond crop. The project again produced a crop containing a good amount of larger sized almonds, with a large proportion of the Nonpareil crop producing almonds in the large 22/24 size category or higher. The final merchantable yields achieved for the 2006 project was approximately 781 kilograms per Almond Lot, 4.13 per cent greater than the revised yield of 750 kilograms per Almond Lot communicated in the 2012 SRHS Report.

The recent pollination period was slightly cooler and wetter than in previous years, with the orchard experiencing rain during seven out of the first 14 days of pollination. From initial observations we expect this to have a minimal impact on the 2014 harvest yield for the 2006 project. We expect yields to remain in line with target yields, provided normal weather conditions are experienced between now and harvest. Flowering for next season so far looks promising with the trees showing good early bud development and growth.

Macquarie Almond Investment 2007 (including late growers)

The 2007 project consists of two separate almond plantings, 183.85 hectares planted in 2006 and 193 hectares planted in 2007.

The 2007 project once again produced a crop containing a good amount of larger sized almonds, with a large proportion of the Nonpareil crop producing almonds in the large 22/24 size category or higher. Larger sized almonds typically command a price premium over the smaller sizes. The harvest for the 2007 project produced a final merchantable yield of approximately 801 kilograms per Almond Lot, 10.48 per cent greater than the revised yield of 725 kilograms per Almond Lot communicated in the 2012 SRHS Report.

The recent pollination period was slightly cooler and wetter than in previous years, with the orchard experiencing rain during seven out of the first 14 days of pollination. From initial observations we expect this to have a minimal impact on the 2014 harvest yield for the 2007 project. We expect yields to remain in line with that of the target yields, provided normal weather conditions are experienced between now and harvest. Flowering for next season looks promising with the trees showing good early bud development and growth.
Macquarie Almond Investment 2008

The 2008 project now consists of 83.1 hectares of almonds planted in 2008 on the ‘Margooya’ property after 3.4 hectares were impacted by the 2011 floods.

The 2008 project produced its third commercial harvest for growers in 2013. The harvest was completed in mid May 2013 and yielded approximately 794 kilograms per Almond Lot, 36.89 per cent greater than the revised yield of 580 kilograms per Almond Lot communicated in the 2012 SRHS Report.

The recent pollination period was slightly cooler and wetter than in previous years, with the orchard experiencing rain during seven out of the first 14 days of pollination.

From initial observations we expect the 2014 harvest yield for the 2008 project to be slightly below target. It should be noted that the 2008 project yield increased approximately 200 per cent from 258 kilograms per Almond Lot in 2012 to 794 kilograms per Almond Lot in 2013. This large 2013 crop will impact the 2014 yield potential.

This is a common phenomena witnessed in the almond industry where trees that over perform in one year may underperform the next.

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Macquarie Almond Investment 2009 (including late growers)

The 2009 project now consists of 171.22 hectares of almonds planted in 2008 on the ‘Margooya’ property, after 7.28 hectares were impacted by the 2011 floods.

The 2009 project produced its third commercial harvest for growers in 2013. The harvest was completed in mid 2013 and yielded approximately 703 kilograms per Almond Lot, 21.21 per cent greater than the revised yield of 580 kilograms per Almond Lot communicated in the 2012 SRHS Report.

The recent pollination period was slightly cooler and wetter than in previous years, with the orchard experiencing rain during seven out of the first 14 days of pollination. From initial observations we expect this to have minimal impact on the 2014 harvest yield for the 2009 project.

We expect yields to be roughly at target yields, provided normal weather conditions are experienced between now and harvest. Flowering for next season looks promising with the trees showing good early bud development and growth.

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Macquarie Almond Investment 2011

The 2011 project consists of 19.75 hectares of almonds planted in 2008 on the ‘Margooya’ property.

The 2011 project produced its third commercial harvest for growers in 2013. The final merchantable yields achieved are expected to be approximately 735 kilograms per hectare, 26.72 per cent greater than the revised yield of 580 kilograms per Lot communicated in the 2012 SRHS Report.

The recent pollination period was slightly cooler and wetter than in previous years with the orchard experiencing rain during seven out of the first 14 days of pollination. From initial observations we expect this to have minimal impact on the 2014 harvest yield for the 2011 project. We expect yields to reach target yields next season, provided normal weather conditions are experienced between now and harvest. Flowering for next season looks promising with the trees showing good early bud development and growth.
Industry update

Water update

The managing authority for water allocations for the Victorian irrigation region is Goulburn Murray Water (G-M Water). The latest seasonal outlook announced by G-M Water on 15 November 2013 stated that high-reliability water allocations in the Murray River system had reached 100 per cent. As such, we expect to receive our full current water allocation, meaning we should not need to acquire additional temporary water licenses.

We continue to monitor the water situation closely and will take any additional action as appropriate. Furthermore, we continue to adopt measures through our irrigation infrastructure to help reduce our water usage, while not impacting the growth and yield potential of the trees in the orchard.

Quality of the almonds

Almond quality is one of many factors that can drive a premium price. Globally, Australian almonds are considered to be of the highest quality and are free of many pests and diseases that impact production levels in other countries. While the harvest was interrupted by a number of rain events, the wet conditions did not have a significant impact on quality and overall, the 2013 crop was of good quality.

The Macquarie orchard team managed the weather conditions well, evident by the predominance of higher quality grades (A and B) of almonds and the low incidence of damage.

Factors influencing Australian almond prices

Almond prices are typically set through contractual negotiations between buyers (including food wholesalers and retailers) and sellers (including the major processing and marketing companies such as AlmondCo in Australia and its equivalents in the US). Typically, the contractual arrangements are set out on different terms and agreed at different times. For example, large industrial food companies may be prepared to take fixed price contracts for 12 months, while wholesale purchasers may prefer to take immediate delivery at prevailing spot prices.

Generally, the almond industry conducts its negotiations around a monthly spot price which varies between almond variety and size. The standard benchmark for the almond spot prices is the price (in US dollars) received for Nonpareil almonds in the 23/25 size category. While this provides a good proxy for almond price movements relative to demand and supply, it does not reflect the actual average price received by growers.

The actual average price received by growers for almonds is dependent upon a combination of factors, including the variety, size, quality, Australian dollar versus US dollar and global demand/supply. Typically, the selling period for the 2013 crop will be completed by mid 2014, and we therefore expect to receive final prices for the 2013 crop around July 2014.

Exchange rate

As the benchmark global almond prices are quoted in US dollars, the price at which AlmondCo is able to market and sell almonds in Australian dollars is influenced by the prevailing exchange rate. A high Australian dollar makes our almond exports less competitive as they become more expensive, adversely affecting prices received in Australian dollar terms. Conversely, the weakness of the US dollar has increased the attractiveness of US exports and assisted US producers in marketing their almonds.

In June 2013, the Australian dollar fell below $US0.95 for the first time since September 2010. As a significant amount of the 2013 crop was sold by AlmondCo before June 2013 the full effect of this drop in the Australian dollar will not flow through to this season’s prices. Should the exchange rate however continue its downward trend, this would benefit prices received for next season’s crop.

The Macquarie Almond Investments are focused on producing high quality almond varieties. The Nonpareil almond is the most popular almond nut and generally commands premium prices. Approximately 50 per cent of the trees planted on the Macquarie Almond orchards consist of the Nonpareil nut variety, compared to less than 40 per cent in California.
Domestic supply

The Australian almond industry is anticipated to produce the largest almond crop on record in Australia for the 2012/2013 season, with early expectations indicating a total production increase from 50,000 tonnes to approximately 72,000 tonnes. This is reflective of a number of almond orchards which were planted several years ago that are approaching or have reached full productive maturity.

The Almond Board of Australia (ABA) is anticipating Australian production growth to continue over the next few years with approximately 57 per cent of Australian almond plantings yet to reach full maturity. Based on 2012 planting survey results, Australia’s almond plantings are just over 30,000 hectares, and as plantings continue to mature, by 2017 production is estimated to reach more than 90,000 tonnes.

The ABA have also observed that Australian domestic demand for almonds has increased by 73 per cent over the past four years, from 0.492 kg per person in 2007/2008 to 0.853 kg per person in 2012/13. The 2012/13 season alone saw Australians eating 20 per cent more almonds with domestic consumption reaching 20,197 tonnes.

Global demand and supply

While Australian almonds are typically harvested during the months of February to April each year, harvesting of the northern hemisphere based US almonds crop typically occurs between May and July. US almonds shipments (sales) for each annual US almond crop are therefore recorded starting in the month of August through to July each year. For example, the US almond crop of 2013/14 will be represented by sales occurring during the months of August 2013 and July 2014.

US almond shipments for the 2012/13 US almond crop (ie from August 2012 to July 2013) were the second largest on record. More than 1.86 billion pounds of almonds were shipped by US suppliers during the year, down slightly on last season’s all-time record of 1.89 billion pounds, however significantly greater than the third largest season on record in 2010/11 of 1.66 billion pounds.

Global demand has grown by 9.80% pa during the past six years. US shipments have increased in recent years largely due to growth markets including India, the Middle East and China where increasing affluence is driving consumption.
The new 2013/14 US almond crop season commenced in August 2013. Based on published data for the months of August to October 2013 (inclusive) the new 2013/14 US almond crop season has currently experienced a run of all-time record monthly almond sales, which the Almond Board of California puts down to increasing healthy eating trends.

It should be noted that data has been received only for the first three months of the 2013/14 season, so there is no guarantee that the trend of all-time record sales will continue, although the season is off to a positive start.

<table>
<thead>
<tr>
<th>Export market</th>
<th>Million lbs. August 2011 - June 2012</th>
<th>Percentage change from last year</th>
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<tbody>
<tr>
<td>Western Europe</td>
<td>440,456,216</td>
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<tr>
<td>Central/Eastern Europe</td>
<td>56,038,209</td>
<td>19%</td>
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<td>Asia-Pacific</td>
<td>494,872,308</td>
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<tr>
<td>China/Hong Kong</td>
<td>22,997,311</td>
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<td>India</td>
<td>113,798,550</td>
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<tr>
<td>Middle East</td>
<td>193,183,301</td>
<td>25%</td>
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</tbody>
</table>

Source: Almond Board of California.

Demand, identified as consumption in the graph below, exceeded the US California almond crop production in the 2012/13 season. This resulted in a significant rise in US almond prices as shown in the graph on page 11 and demonstrates the strength of the almond industry’s underlying fundamentals with global consumption continuing to rise.

Despite the recent industry expansion, growth in supply is failing to meet the rate at which demand is increasing. This is largely due to the relatively long time period from planting to full production of mature orchards, as well as difficulties in establishing/expanding almond orchards due to their specific climatic requirements for growth.

Recent drought conditions in California impacted on yields, quality and operating costs for the region. As approximately 80 per cent of the world almonds are produced in California, these pressures will constrain supply and firm almond prices received globally.

US almonds shipments (sales)

Source: Almond Board of California.
Over the past 11 years, global consumption of almonds has grown at a compound rate of 7.75% pa. This growth has largely been fuelled by increasing demand from the Asian region, particularly China and India. The Asia-Pacific region, including China and India, became the largest export destination for US almond exports last year. China alone increased Almond imports from the US by 41 per cent in the 2010/2011 season to become the leading US almond export destination.

2 Almond Board of California, Macquarie.
The charts below highlight the shift in demand for US almonds between the 2005/06 crop and the 2012/13 crop. As can be seen, in 2005 Western Europe and the Americas represented a combined demand of 78 per cent, which fell to 53 per cent in 2011 but increased in 2012 to 60 per cent. By contrast, combined demand from the Asia-Pacific region and the Middle East was 19 per cent in 2005 and increased to 45 per cent in 2011 before decreasing to 36 per cent in 2012. Although the proportion of the crop exported to Western Europe and America has declined, in real terms the consumption in these regions has continued to increase.

According to the ABA, if these trends continue there is a possibility that global demand for almonds could outstrip supply in coming years. With Australian production expected to increase during the period, domestic growers should be in a strong position to take advantage of any potential supply/demand imbalance.
Almond lifecycle

Almonds grow on trees that start to bloom in Australia from late July to early August. Weather conditions during the month of August determine the length of the pollination period, and flowering will typically occur for between four and six weeks.

Almond trees in the orchards blossom in alternate rows. This is because orchards are planted with two to three different varieties of almond trees in individual rows, and as almonds are not self-pollinating, bees cross pollinate between the different varieties of trees planted.

During the months of September and October, almond fruit rapidly develops and the leaves begin to grow on the trees. Almond kernels are the seed of the fruit and develop in a shell that is surrounded by a hull. During this period the kernels start to mature and harden. The almond fruit matures throughout the summer allowing the hull to dry and split open, revealing the shell that encases the nut.

The nuts dry naturally in the shell before they are harvested by mechanical tree shakers, which shake the almonds, still in their hulls, from the tree to the ground. The harvest usually occurs between February and May when the kernel is at an acceptable moisture level. Macquarie Agricultural Services uses some of the world’s most advanced, state-of-the-art harvesters for this process. Once on the ground, additional machinery is used to collect the almonds and store them in bunkers prior to sending them off for hulling and shelling.

The process of hulling involves transporting the almonds to the hulling and shelling facility, where the almonds are received and weighed. Additional information is gathered regarding the source of the almond, the grower and the variety. Hulling machines then begin the process of removing the hull of the nut, leaving the almond kernel inside the harder shell (commonly referred to as ‘in shell’).

While it is possible that some almonds may be marketed and sold in the ‘in shell’ state, most almonds continue through the processing lifecycle for shelling, where state-of-the-art technology removes the outer shell, leaving the almond kernel to be sized, cleaned and processed for packaging and sale. Finally, they are sold to consumers around the world.

Further information regarding the lifecycle of almonds can be found on the AlmondCo Australia website at almondco.com.au/virtual_tour.htm.
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