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Industry Update/Carl Benck - Board President



*L-R: Robert Miller, Carl Benck
Carl Benck is presenting Robert Miller with a plaque as Robert steps down as Board President. Carl is the new Board President.*

Ethanol production in America has decreased substantially over the past eight months. Late in calendar year 2011 we hit an all-time record high production rate of nearly 14.6 billion gallons, whereas in late July the capacity run rates equated to only 12.2 billion gallons annually. We expected the industry slowdown in pro-

duction would have had a positive impact on margins more quickly than it has; however, blenders have been importing Brazilian product which has kept the United States inventories more than adequate and ethanol prices depressed. As

“...blenders have been importing Brazilian product which has kept the U.S. inventories more than adequate and ethanol prices depressed.”

we move forward; however, harvest season will soon end in Brazil which should tighten their supply and reduce the amount of product shipped out. Here in the United States the gasoline blenders and refiners still have plenty of economic

incentive to use ethanol. Oil refiners have embraced the use of ethanol because it allows them to make sub-octane gasoline (typically 84), which reduces the amount of refining and increases their efficiency and profitability. Most refineries only offer the sub-octane gas as blending stock into the terminal markets, thus the blenders must have ethanol to make grade (87 octane) on the gasoline given ethanol has an octane rating of 113. The price of ethanol for the blenders continues to run a discount to gas; however, it has come down from the \$1.20 spread in April to as low as \$0.20 in July and has more recently begun to increase again.



L-R: Dan Wegner, Terry Olson

Dan Wegner - Commodities Manager
“United States Crops Under Serious Stress”

The United States corn supply has been very tight for the last two years, and this Spring it appeared we were on track to get supply and demand back inline as producers planted record acres to corn. The planting progress was record fast as warm spring weather allowed many producers to get an early start, and the crop looked great for the first month or so. Then the tempera-

tures in many areas started to rise, and rain events were few and far between. This dry weather pattern has expanded to a large part of the Midwest, with high temperatures very common landing over 60% of the United States to be extreme drought. Corn prices have shot higher trading from \$5.00 to over \$8.00 per bushel in the face of what may be the worst weather since the 1930’s Dust Bowl. How bad is it; 62% of the Corn Belt failed to receive ½ inch of rain the past 14 days and June-July are on track to be in the top 10 warmest and driest category since 1895. The only three years since 1895 that occurred were 1916, 1934 and

“...may be the worst weather since the 1930’s Dust Bowl.”

1936. So, this is an event that no one that is active in the industry has ever seen. The markets will remain extremely volatile as we trade through the rest of the growing season, and the price rationing role of the market is accomplished. I do not know what the size of the corn crop will ultimately be, nor do I know how high prices will go. I do know however, that the American Agriculture Industry is very mature and innovative from top to bottom, and regardless of how bad the situation might get, our people will have plenty of food and fuel.

Barb Bontrager - CFO/General Manager

Below is a snapshot of our results for the first six months of 2012. The complete financial statement, reviewed by our auditors, is available for your viewing from our website. While we are not excited about our results to date or the short term outlook given the current crop year, we do have the financial strength and long term vision to weather this storm. I have added some balance sheet information to the following financial chart in hopes of restoring any lack of confidence that may be lurking as a result of the drought conditions. In the second quarter alone we have recorded unrealized hedge losses of \$4.3 million; once again a result of the “bringing to market” our short hedge positions (corn and ethanol) which we use to protect our risk on the fixed price forward corn purchases we have with producers. We expect to recover these unrealized hedge losses as we receive and grind through the corn in these fixed price contracts. You can see from the chart below that our net income before unrealized hedging activities for the first six months was \$4.5 million or 16 cents per gallon which is approximately 16% return on members’ equity.

	Six Months Ended 6/30/12	Six Months Ended 6/30/11	Variance	% Variance
Gallons of Ethanol Produced	28,272,689	28,406,797	(134,108)	-0.5%
Bushel of Corn Ground	9,936,225	9,914,918	21,307	0.2%
Yield - Gallons denatured ethanol/bu of corn processed	2.845	2.865	(0.020)	-0.7%
Average Ethanol Price per gallon (net back to plant)	\$2.10	\$2.48	(\$0.38)	-15.3%
Average Corn Price per bushel	\$6.20	\$5.69	\$0.51	9.0%
Total Revenues with realized hedging activities	\$ 79,334,642	\$ 78,341,284	\$ 993,358	1.3%
Gross Margin before unrealized hedging activities	\$ 6,433,124	\$ 8,716,759	\$ (2,283,635)	
Net Income before unrealized hedging activities	\$ 4,564,040	\$ 7,095,099	\$ (2,531,059)	
Net Income before unrealized hedging per gallon ethanol	\$ 0.16	\$ 0.25	(\$0.09)	-35.4%
Unrealized gain (loss) from hedging activities	\$ (4,041,258)	\$ 7,221,612	\$(11,262,870)	
Net gain after all hedging activities	\$ 522,782	\$ 14,316,711	\$(13,793,929)	
	as of 6/30/12	as of 6/30/11		
Working Capital	\$ 25,277,956	\$ 26,852,604		
Total Assets	\$ 64,060,094	\$ 70,797,779		
Member Equity	\$ 59,435,797	\$ 67,868,218		

On July 12th the United Wisconsin Grain Producers LLC (UWGP) Board of Directors decided to forego a mid-year membership distribution this year due to our results for the first six months and in an effort to harbor cash until we see the final outcome of this crop. I do not expect a membership distribution to be considered until early in 2013 after the close of this fiscal year.

Anthony Pilsner - Internal Auditor/Controller



L-R: Suzanne Wendt, Anthony Pilsner

I am from Middleton, Wisconsin and I went to the University of Wisconsin-Whitewater where I received my Master’s degree in Accounting. Before coming to work at UWGP as Internal Auditor/Controller

in July, I worked at the corporate office for the Great Wolf Lodge as an internal auditor and a liaison for three of the eleven nationwide resorts. I also worked at Madison Media Institute in their accounting department as a Staff Accountant performing various accounting tasks.

My goal is to keep cross training as much as possible so that I am able to step in where necessary at any time. I plan to work closely with the Environmental Compliance Manager to help keep

UWGP in compliance with all regulations dealing with the Environmental Protection Agency (EPA) and Wisconsin Department of Natural Resources (WDNR). I also plan to work with the Safety Manager ensuring compliance with the Occupational Safety and Health Administration (OSHA) and implementing Process Safety Management (PSM). Another goal is to maintain a consistent audit to ensure UWGP is presenting their financials accurately and in compliance with the Generally Accepted Accounting Principles (GAAP).



L-R: Kevin Hines (U.S. Water), Darryl Senda



Retirement News

We held a retirement luncheon for Darryl Senda (Maintenance Department) on Friday, August 17th. Darryl is not only a co-worker but a dear friend to all at UWGP.

Jenny Ebert - Quality Assurance/Environmental Manager "Environmental Compliance"

As with any regulatory program - whether it is the tax code, OSHA, or environmental regulations - the agencies charged with implementing these programs must eventually inspect or audit facilities to ensure their compliance. UWGP is no different and is frequently subject to inspections and audits. For example, UWGP has been the subject of several inspections by the WDNR which has consistently concluded that our facility is meeting (and in many instances exceeding) the environmental regulations that apply to our operations.

In July 2011 the EPA chose to inspect our facility to also determine our compliance with environmental requirements. Although the WDNR is principally responsible for regulating our

facility, the EPA retains authority and jurisdiction to also enforce the same regulations. After the inspection, the EPA provided UWGP with a request for information regarding our production levels and environmental compliance documentation. In March of 2012 UWGP received a "Notice of Violation and Finding of Violation" (NOV/FOV) from the EPA identifying five areas of concern related to the information that we had supplied to them last fall.

UWGP has worked diligently gathering supplementary documentation for each of the areas of concern and met with the EPA in Chicago on June 25th to

present this additional information as well as discuss their concerns. These discussions were productive and it was clear that some of the areas of concern were based on miscommunication or a misunderstanding of our processes.

We are not certain what, if anything will come of the NOV/FOV.

In situations involving other ethanol production facilities, NOV/FOVs have resulted in fines, requirements to install additional pollution control equipment, operational restrictions and/or negative press. It is difficult to predict the level of monetary fine that might be sought by the EPA since most Wisconsin ethanol facilities

have negotiated penalties with the WDNR rather than at the federal EPA level. Regardless, UWGP has always promoted a "do it right" philosophy to be: good neighbors; a contributing member of our community; a safe working place; and good stewards of the environment. This will not change. Although we believe that our environmental compliance record is solidly documented by past WDNR inspections, there is a possibility that the EPA will choose to draw different conclusions and pursue its own course. You are all vital members of our company. We wanted to make you aware of this development and intend to keep you apprised of our continuing work with the EPA with respect to the NOV/FOV.

"UWGP has always promoted a "do it right" philosophy to be: good neighbors; a contributing member of our community; a safe working place; and good stewards of the environment."



L-R: Marc Berger, Justin Roche

It's Fair Time. Once again we are at that time of the year where we recognize the accomplishments of our future agricultural leaders by celebrating their achievements through the county fairs. It is a pleasure for me to attend the livestock sales and see the work put in and the enthusiasm from our young people. I wish to give thanks to all of the people who work hard to make the fairs a reality and

Terry Olson - Grain Procurement & Feed Sales

offer congratulations to the youth who participate in these events.

UWGP has a tradition and a desire to support our youth at the county fairs. We enjoy the time we spend at the auctions and appreciate the thanks that we receive by participating. I would encourage people to stop by and visit with us as we attend these livestock sales. I like to be able to put a face with the voice I talk to on the phone. We are committed to supporting our youth in their achievements.

The coming year looks like it may be difficult with the weather pattern and the crop conditions. In times like these we must continue to support our youth and to work together for the future of our agricultural leaders. It may be a tough year but UWGP is

committed to not only our current agricultural leaders but our future leaders as well. I wish everyone a safe summer and safe harvest season that is right around the corner. If there is anything we can do for you, please do not hesitate to call.

UWGP Sponsorship—UW SAE Race Team at the Dodge County Fair





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Marc Berger - Safety Manager

One of the biggest safety topics from OSHA in the working industry today is the hazard communication standard (HCS) which is CFR 1910.1200. HCS requires employers to make their employees aware of all the hazardous chemicals in the work place and how to properly handle and store them. Employees are trained on how to properly read and use a Material Safety Data Sheet (MSDS) to look up appropriate information such as personal protective equipment required to be worn while cleaning up a chemical spill. OSHA's new modified hazard communication standard is called the Global Harmonization Standard (GHS). There are three major differ-

ences between HCS and GHS. The first major difference is with the HCS, chemical manufacturers could set up their MSDS in any format they would like. With GHS, the MSDS is now called a Safety Data Sheet (SDS) and requires all chemical manufacturers to use the same sixteen element format for all SDS. The second major difference on the SDS from the MSDS is the use of nine common pictograms. The pictograms make the employee aware of health, physical, and environmental hazards that are present in the chemical they are working with. The pictograms will have the same meaning no matter where the chemical comes from to eliminate any confusion in wording on the SDS.

OSHA believes having nine common pictograms will make it easier for medical personnel to give treatment much quicker with a standardized format. The third major difference in the GHS is the labeling of chemicals in the work place. The old labeling system required the chemical name and hazard identification, which was left up to the chemical manufacturer to relay the information in any format they deemed appropriate. The GHS requires all labels to have a picto-



Example of Chemical Label

gram, signal word, hazard statement, and precautionary statement. OSHA will be requiring all chemical manufacturers to comply with the new Hazard Communication Standard which is known as the GHS by 2015. All em-

ployers are required to start training their employees on the GHS by December 1, 2013. OSHA estimates that the revised GHS will result in the prevention of 43 fatalities and 585 injuries resulting in a savings of \$250 million a year. I feel the GHS is a great change in the right direction and we will start converting UWGP over to GHS in 2013.

Nine Standardized Pictograms on SDS

HCS Pictograms and Hazards		
Health Hazard <ul style="list-style-type: none"> • Carcinogen • Mutagenicity • Reproductive Toxicity • Respiratory Sensitizer • Target Organ Toxicity • Aspiration Toxicity 	Flame <ul style="list-style-type: none"> • Flammables • Pyrophorics • Self-Heating • Emits Flammable Gas • Self Reactives • Organic Peroxides 	Exclamation Mark <ul style="list-style-type: none"> • Irritant (skin and eye) • Skin Sensitizer • Acute Toxicity • Narcotic Effects • Respiratory Tract Irritant • Hazardous to Ozone Layer (Non-Mandatory)
Gas Cylinder <ul style="list-style-type: none"> • Gases Under Pressure 	Corrosion <ul style="list-style-type: none"> • Skin Corrosion/Burns • Eye Damage • Corrosive to Metals 	Exploding Bomb <ul style="list-style-type: none"> • Explosives • Self-Reactives • Organic Peroxides
Flame Over Circle <ul style="list-style-type: none"> • Oxidizers 	Environment (Non-Mandatory) <ul style="list-style-type: none"> • Aquatic Toxicity 	Skull and Crossbones <ul style="list-style-type: none"> • Acute Toxicity (fatal or toxic)