20 December 2012

2012 AGM - Chairman’s Address

Attached is a copy of the Chairman’s Address to the 2012 Elders Limited Annual General Meeting being held in Adelaide today.

Peter Hastings
Company Secretary

Address by the Chairman, Mr John Ballard
Elders Limited 2012 Annual General Meeting

We meet as shareholders in the unusual circumstances whereby the Company has initiated sales processes for both of its operating businesses.

In addressing you this morning, I will explain why the board has taken this path and share directors' current expectations of the process and timeline involved. We will, of course, turn to questions that individual shareholders may have in the session following my remarks.

Due to the sales processes that are underway, we are departing from the usual practice where the Chief Executive has briefed the meeting on the status of the Company's operations. Correspondence and communications from shareholders has demonstrated that current interest is focussed on the decision to divest both the Rural Services and Futuris Automotive businesses. Accordingly, we will dispense with a separate operations briefing to allow more time for discussion on the divestments. The Chief Executive is, however, ready to answer any questions you may have of him.

2012 Results

Firstly, I will discuss the Company's performance in 2012 and year-end position.

Details of the financial and operating results are set out in the Annual Report lodged with the ASX and mailed to shareholders who have elected to receive hard copy. I would like to highlight and discuss the key features.

Elders recorded a statutory loss after tax of $(60.6) million for the 12 months to 30 September. The loss, like the previous year's statutory loss, is essentially due to non-recurring and significant items arising from the withdrawal from Forestry. Exclusive of these, and other non-recurring items which totalled a loss of $(73.8) million, Elders recorded an underlying profit after tax of $13.2 million, up 47% on the previous year's result of $9.0 million.

The non-recurring items, and a reconciliation between the statutory profit and underlying profit result, have been detailed in the annual report and other explanatory documents lodged with the ASX.

2012 Operating performance

The increase in underlying profit was driven by stronger earnings generation by both the Rural Services and Automotive businesses. Elders Rural Services lifted its underlying EBIT by 18 per cent from $24.9 million to $29.5 million. Within this result, underlying EBIT generated by Trading was $17.6 million, up 148% on the previous year's result of $7.1 million.

This shows the success of the new Trading business model implemented in the previous year. This has seen the business reoriented from a business driven by Australian supply to one based on being the best at understanding, and satisfying, the needs of global customers for feeder and breeder cattle – and doing so with less capital and greater diversification of risk.

The strength provided by the diversity within Elders' Rural Service business is also evidenced in the 2012 results.

Growth in trading income, and from joint ventures in wool handling, insurance distribution and abattoirs, enabled the business to offset the downturn in network income brought by lower prices and volumes in the traditional agency businesses of livestock, wool and real estate.

As has been reported across the sector, 2012 was a difficult year for rural agency and merchandising, due to the combined effects of dry weather, international economic conditions and lower confidence levels. Elders reduced annual costs in its ongoing businesses and kept total costs in line with the previous year's level.

The effort was intensified further in August through a comprehensive re-set of corporate and back office costs which extended from the mail-room to the board-room. Corporate and back office head count has been reduced by 25% in these areas, significantly cutting overheads for the business going into 2013.

Futuris Automotive increased its underlying earnings contribution by 10% to $18.5 million.

More significantly, the business has begun to realise gains in its strategy of transforming from a local supplier to Australian manufacturers to being a Tier One interiors partner of choice to the global industry. Futuris Automotive commenced operations in Thailand, supplying GM and Ford. In China it won its first contract with one of the major Chinese Automotive manufacturers, Shanghai Automotive Industry Corporation. In North America it commenced supply of seats to the premium electric vehicle manufacturer, Tesla. The escalation of volume under existing contracts, and commencement of contracted new business, now has Futuris Automotive with a full order book for the near to medium term.

The $(75.3) million loss from the discontinued forestry operations warrants comment. This item essentially comprises 3 elements:

1) the trading loss incurred by the remaining forestry operations and from the 49.7% owned investment Agricultural Land Trust;
2) gains on sale from forestry asset divestments completed during the year; and
3) provisions and impairments made to align the balance sheet with the current expectations of the impact of completing the forestry divestment and withdrawal process.

Shareholders will recall that substantial provisions and impairments were made for the withdrawal from Forestry in the 2011 financial accounts. These have proven conservative in respect of the mature pulpwood assets divested during the year.

However, forestry values weakened further over the course of 2012, due to the sheer weight of forestry assets being brought to market, the weak demand for forestry end-products and tight credit for the sector generally.

The impairments and provisions made in the 2012 accounts recognise the deterioration in the estimated market value of the remaining plantations and the revision to the anticipated timelines, and associated costs, for operations where sale was not completed.

The Forestry divestment program has been advanced since year-end with two new agreements announced earlier this week. These agreements, which provide for the sale of Indian sandalwood operations and of the grower-owned APT pulpwood estate are expected to be completed in the first quarter of calendar 2013, subject to the necessary conditions precedent including grower approvals. Final consideration is yet to be determined but is expected to approximate or slightly exceed book value. Cash raised by these sales will be applied to paydown of debt and payment of amounts due to growers.

Balance Sheet

The final aspect of the 2012 results I would like to comment on is the balance sheet.

I know shareholders are keen to understand the Company's indebtedness, why it is still an issue and how this situation arose.

Debt reduction has been a consistent feature of recent annual results as Elders has worked to address the burden brought by the substantial investment previously made in forestry assets.

As is now a matter of history, the business model on which previous boards based the forestry investment was obliterated by the collapse of investment funding from the MIS sector and the collapse of sales revenue following the global financial crisis and the Japanese tsunami.

However, the debt incurred in funding the forestry investment has remained. Moreover, its repayment has been made more difficult by the fact that the withdrawal of investment funding and sales revenue has meant that forestry operations have not generated cash as expected, but demanded additional funding to meet cash outflows. Over the past three years, the ‘cash burn’ from forestry operations has exceeded $113 million in total.

Notwithstanding this, the Company has made substantial inroads in dealing with its debt, and made further progress in 2012. Elders concluded the year with net debt of $295.3 million and gearing of 54% - down from $345.4 million and 57% in the previous year.

This is the fourth successive annual improvement. However, net finance costs still absorbed 53 cents out of every dollar of underlying earnings generated by the Company before interest and tax.

Ultimately, despite the progress, the facts remain that Elders’ borrowings are still too high, interest costs are consuming too great a share of the Company’s earnings and its debt and interest metrics remain prohibitively unfavourable for many investors.

Futuris Automotive Sales Process

As shareholders may recall, the sale of Futuris Automotive had been proposed under the Agenda for Change strategy in 2008. However, the sale was deferred due to the merit of capturing value created by new international supply contracts scheduled to begin in 2012 and 2013, and because of the impact of the Global Financial Crisis.

By August 2012, the case for proceeding became clear. Futuris Automotive had successfully commenced supply of its North American and Asian contracts. The Futuris sales process, initiated in

August, has now reached the point where non-binding indicative proposals have been received. A short-list of parties will shortly be engaged in due diligence and the sales process is presently on track for the targeted announcement of a sale agreement in early 2013.

Sale of Rural Services

The proposed divestment of Futuris Automotive will see Elders become the agriculture 'pure play' originally sought by the Agenda for Change strategy. However, this may not be sufficient to obviate the capital structure matters which are weighing on your Company's share market appeal and the valuation of its shares.

These matters include anticipated debt levels and capital constraints and the prohibition of hybrid distributions and dividend payments. While these matters persist, it can be expected that Elders' shares will continue to underperform and will not attract prices commensurate with the market value of the Rural Services business and the Elders brand.

Directors and their advisors have considered the customary recourse of raising further capital through an equity issue, as well as other equity market options. However, this does not appear to be a realistic proposition due to the size of the equity raising required and given the necessary underwriting is unlikely to be available to the Company.

The stark conclusion is, that as we enter what appears to be one of the most favourable markets for Australian agricultural business for decades, Elders shareholders face inferior returns as the current ownership structure mitigates against the market value of the core business being reflected in the share price.

This is clearly unacceptable, and your board has acted so that the Company can release the value the Rural Services business holds in current markets to those bidders who possess the capital structure and resources to realise its potential.

As is evidenced in the media, Australian agribusinesses are currently the subject of heightened global interest. For this reason, Directors believe that a global and competitive sales process is the avenue most likely to generate the most valuable outcome. The early response has been encouraging, and we have received a high number of expressions of interest from a diverse range of potential bidders from Australia and abroad.

The proposed sale of the principal operating business is a momentous consideration for the Company, and a matter which your board believes should ultimately be decided by its shareholders.

Accordingly, directors intend that shareholders will be presented with any recommended proposal for their assessment and approval at a future Extraordinary General Meeting (EGM).

Directors appreciate that the initiation of a sale process inevitably creates uncertainty and that, for this reason, all parties concerned generally desire completion as rapidly as possible. I can assure you that the board is committed to, and is driving the sales process, to achieve that objective - subject to the achievement of the best value outcome within a reasonable time frame. A confidential Information Memorandum for the sale is approaching completion and whilst slightly delayed, will be ready for distribution to interested parties in January.

Financing

Subsequent to year-end, the company reached agreement on modifications to align its finance facilities as it proceeds through the divestment process.

The tenor of finance facilities have been aligned with the expectations of the sales processes and an additional facility, with the same tenor, has been secured. This additional facility has been required as the previous facility was due to expire in December 2012.

Matters of Material Uncertainty

I would like to address the matters of material uncertainty that the directors and our external auditor have noted in the Annual Financial Report.

These matters essentially arise from the uncertainty present at the time of signing the accounts in respect of ongoing financing and about the timing, values and proceeds to be realised from the proposed asset sales.

As I have just reported, the Company has subsequently secured ongoing financing, and its total financing package has been aligned to accord with the anticipated time-frame, and requirements of the sale process.

The uncertainty with respect to the timing of the sale processes, and the values and proceeds realised is a natural corollary of the sales exercise. As in all sales processes, these areas of uncertainty will be removed as the sales of the operating divisions proceed and the necessary information becomes available.

2013 trading update

Both board and management are mindful of the need for our operating businesses to maintain focus on day-to-day performance while the sales processes are underway.

While it is not possible to insulate businesses totally from a sales exercise, both Elders Rural Services and Futuris Automotive have capable, disciplined and highly focussed management teams. Both teams appreciate the opportunity that lies ahead in an alternative ownership structure with greater access to capital and are keen to demonstrate their capability.

Market conditions during the first two months to 30 November have featured dry conditions, subdued activity and lower prices in livestock markets and production schedule cutbacks in the automotive sector. Trading results have reflected this climate.

In Rural Services, network results have shown a similar pattern to the previous year with livestock revenue and earnings trending lower while farm supplies gross margin is broadly in line with the previous year to date.

Futuris has recorded increased sales, and while results have been affected by vehicle production in Australia being lower than

anticipated, overseas operations are performing broadly within expectations.
Total group sales and earnings for the year to date are behind that of the previous corresponding period, although it is still too early in the year's trading cycle to make reliable conclusions about any implications of this for full year outlook

Debt levels remain below that of the previous corresponding period, but as is customary, above 30 September due to the additional working capital demands that arise at this time of the year. This has been exacerbated somewhat this year by the slower start in sales.

Net debt as at 30 November was $359.8 million compared with $381.4 million twelve months earlier. Less than half of this figure, approximately $165 million, represents core net debt owed to banks, with the balance being self-liquidating facilities backed by near term receivables.

Concluding comments

I am conscious that a year ago I expressed the board's expectation that the Company would demonstrate improved operating performance in 2012. There has indeed been operational improvement in the last 12 months, but it has not been sufficient. While we have two very strong businesses with good growth prospects for the future, it has become increasingly clear the debt burden the overall business has been carrying, combined with the costs of Forestry, will not allow either Futuris or Elders Rural Services to achieve their potential.

This reality, combined with the rising corporate interest in, and market values for, Rural Services, meant that the sales process now initiated was the best course of action.

I know, from the calls and correspondence we have had, that many shareholders understand and accept the logic of acting to maximise shareholder value in the current circumstances, but want to better understand why the decision to sell Rural Services has been made and want clarity on the implications for their investment.

I trust I have addressed the first question satisfactorily as to why we have moved to a sale process, but will welcome the opportunity to answer further queries. While I am sorry the second question cannot be answered at this point, given it is still too early to forecast the financial outcome of the sales, the board is sure that the Company has chosen the best path forward in the circumstances.

As mentioned at the beginning, our Chief Executive Malcolm Jackman and I are available to answer any questions.

Thank you