18 November 2013

# 2013 Financial Results Discussion and Analysis

Attached is the discussion and analysis of the financial results for the 12 month period ended 30 September 2013.

**Peter Hastings**
Company Secretary

# FY 2013 FINANCIAL RESULTS

## DISCUSSION & ANALYSIS

Results for the 12 months ended 30 September 2013

18 November 2013

# 2013 Financial Results

## Discussion and Analysis

This document provides discussion and analysis of Elders Limited's financial results for the 12 months ended 30 September 2013 as announced to the ASX today.

**Calculation of underlying profit**
This document and accompanying announcements, such as the 2013 Financial Results Press Release, refer to and discuss underlying profit to enable analysis of like-for-like performance between periods, excluding the impact of discontinued operations or events which are not related to ongoing operating performance.

Underlying profit measures reported by the Company have been calculated in accordance with the FINSIA/AICD principles for the reporting of underlying profit. Underlying profit is non-IFRS financial information and has not been subject to review by the Group's external auditors, but is derived from audited accounts by removing the impact of discontinued operations and items not related to ongoing operating performance.

Reconciliation between statutory and underlying profit is provided on page 3 of this document.

**Prior period comparatives**
Prior period comparatives presented in the 2013 Annual Financial Report and this document recognise the impact of changes in the composition of the business to recognise discontinuation of assets and operations divested. Details of discontinued operations are provided in Note 37 of the 2013 Annual Financial Report.

Where appropriate, prior period comparatives have been amended to provide a like-for-like comparison.

Abbreviations & Definitions

| | |
|---|---|
| 2012 and FY12: | 12 months ended 30 September 2012 |
| 2013 and FY13: | 12 months ended 30 September 2013 |
| F13 H1 and F12 H1: | first half year: i.e. six months to 31 March of 2013 or 2012 |
| F13 H2 and F12 H2: | second half year: i.e. six months to 30 September of 2013 or 2012 |
| pcp: | prior corresponding period, 12 months ended 30 September 2013 |
| EBIT: | earnings before interest and tax |
| Statutory/Reported profit/loss: | profit or loss as defined by International Financial Reporting Standards (IFRS) |
| Underlying profit/EBIT: | profit/EBIT before recognition of discontinued operations and items not related to ongoing operating performance |
| Contribution: | earnings before support centre and other costs, interest and tax; i.e. gross margin less costs |
| F/(UF): | favourable/unfavourable variance |
| k: | thousand |
| m: | million |
| n/m: | not meaningful |
| Elders: | Elders Limited and/or its subsidiaries |
| Company and Group: | Elders Limited and/or its subsidiaries |

**Further Comment:**

| | | |
|---|---|---|
| Malcolm Jackman | Chief Executive Officer | 0439 642 876 |

**Further Information:**

| | | |
|---|---|---|
| Richard Davey | Chief Financial Officer | 0437 167 772 |

**Media Comment:**

| | | |
|---|---|---|
| Fiona Stuckey | Senior Specialist Communications | 0419 226 384 |

# Reconciliation of Statutory and Underlying Profit

The statutory loss after tax attributable to owners of the parent (shareholders) of $(505.2m) for the 12 months ended 30 September 2013 (F12 : $(60.6m)) includes a number of items considered either not related to ongoing operating performance or related to discontinued operations.

Calculation of underlying profit by excluding these items enables more meaningful comparison of results between periods by providing like-for-like figures for ongoing operations.

Underlying profit is calculated as follows:

| Statutory and Underlying Profit | | |
|---|---|---|
| *$m after tax 12 months ended 30 September:* | **F13** | **F12** |
| **Reported profit/(loss) after tax to shareholders** | **(505.2)** | **(60.6)** |
| **Items excluded from underlying profit/(loss):** | | |
| Rural Services | (159.3) | 0.4 |
| Corporate & other | (26.3) | (15.1) |
| Automotive | (201.8) | 4.2 |
| Forestry | (16.7) | (74.9) |
| Tax on items excluded from underlying profit/(loss) | (38.1) | 35.4 |
| **Items excluded from underlying profit/(loss)** | **(442.2)** | **(50.0)** |
| **Underlying profit/(loss) after tax to shareholders** | **(63.0)** | **(10.6)** |

Items excluded from statutory profit to determine underlying profit for the 12 months ended 30 September 2013 comprise:

- **Rural Services** items before tax of $(159.3m), including impairment of intangibles $(151.4m)[1], other asset impairments $(21.5m), cost of business reorganisation $(14.1m), cost of terminating the IT platform replacement project $(4.3m), onerous contracts $(3.8m), mark to market loss on foreign currency contracts $(3.0m) offset by profit on sale of Elders Insurance JV $26.0m and fair value uplift in Insurance JV $17.3m.
- **Corporate** items before tax of $(26.3m), including impairment of investment in Seafood Delicacies Ltd $(5.3m) and Australian Fine China $(2.5m), costs relating to intiatives to divest Automotive and Rural Services $(6.8m), refinance costs $(3.2m) and interest relating to discontinued operations $(8.9m).
- **Automotive** items before tax of $(201.8m), including impairment of intangibles $(166.5m), loss on disposal of $(37.7m) and results from discontinued Automotive operations for the period $2.3m.
- **Forestry** items before tax of $(16.7m), including equity loss and impairment associated with the ALT investment $(18.5m), loss on disposal of forestry assets $(2.6m), restructure costs $(11.8m) and results from discontinued forestry operations for the period $(9.7m) which were offset by reversal of asset impairments for assets held for sale $6.7m and reversal of onerous contract provisions $19.2m.
- **Tax** items excluded from underlying results of $(38.1m), relating to de-recognition of deferred tax asset on prior year losses and temporary differences $(64.5m), partly offset by realisation of taxable income on wind up of Forestry assets and provisions $15.0m and disposal of Automotive operations $4.6m.

**[1] The Rural Services impairment loss, recognised under Accounting Standards, is largely a result of a reduction in future cash flows following the sell down of a portion of Elders Insurance (Underwriting Agency) and an increased allocation of corporate costs to the business due to the reorganisation of Elders as a pure-play agribusiness.**

**The Elders brand remains the most recognisable rural banner in Australia.**

## Reported and Underlying Profit measures

| Profit: Reported and Underlying | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | F13 | F12 | F/(UF) |
| **Underlying EBIT** | **(42.0)** | **8.2** | (612%) |
| Net underlying finance costs | (16.2) | (13.1) | (24%) |
| **Underlying profit/(loss) before tax** | **(58.2)** | **(4.9)** | n/m |
| Tax on underlying profit/(loss) | (1.7) | (2.5) | 33% |
| Non-controlling interests | (3.1) | (3.2) | 3% |
| **Underlying profit/(loss) to shareholders** | **(63.0)** | **(10.6)** | (493%) |
| **Items excluded from underlying profit/(loss)** [1] | **(442.2)** | **(50.0)** | (784%) |
| **Reported profit/(loss) after tax to shareholders** | **(505.2)** | **(60.6)** | (733%) |
| **Earnings per share (cents)** | | | |
| - reported basic | (112.4) | (13.5) | |
| - reported diluted | (112.4) | (13.5) | |
| - underlying basic | (14.0) | (2.4) | |
| - underlying diluted | (14.0) | (2.4) | |

[1] *Items excluded from underlying profit are detailed on page 3 of this document*

## Movement in Underlying Profit Before Tax

| Profit Movement Analysis | | |
|---|---|---|
| *$m 12 months ended 30 September:* | | |
| **F12 Underlying profit/(loss) before tax** | | **(4.9)** |
| **Change in F13 from:** | | |
| Rural Services EBIT | **(54.5)** | |
| Corporate & other EBIT | **4.3** | |
| Change in underlying EBIT | | (50.2) |
| Change in underlying finance costs | | (3.1) |
| **F13 Underlying profit/(loss) before tax** | | **(58.2)** |

Underlying profit before tax declined by $(53.3m) in comparison with pcp due to:

- Decrease in underlying EBIT by $(50.2m):
  - Rural Services EBIT down $(54.5m) due to lower earnings from the Australian Network and International Trading operations, $(24.2m) International Trading balance sheet adjustment which was partly offset by increased earnings from the New Zealand Network and cost reductions in Support Centres.
  - Corporate and other EBIT improved $4.3m from cost reductions.
- Net underlying finance costs $(3.1m) higher than pcp as detailed on page 5.

# Key Profit and Loss Items

| Key Profit & Loss items | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | **F13** | **F12** | **F/(UF)** |
| **Sales revenue** | | | |
| - Continuing operations | 1,657.1 | 1,813.2 | (9%) |
| - Discontinued operations | 305.5 | 359.4 | (15%) |
| **Total sales revenue** | **1,962.6** | **2,172.6** | (10%) |
| **Depreciation & amortisation** | | | |
| - Continuing operations | 6.5 | 6.4 | (2%) |
| - Discontinued operations | 12.7 | 14.6 | 13% |
| **Total depreciation & amortisation** | **19.2** | **21.0** | 9% |
| **Income from associates** | | | |
| - Continuing operations | 11.5 | 14.1 | (18%) |
| - Discontinued operations | (3.1) | (6.3) | 51% |
| **Total income from associates** | **8.4** | **7.8** | 8% |
| **Net finance costs** | | | |
| - Underlying finance cost on core debt | (10.8) | (8.1) | (33%) |
| - Finance cost on self-liquidating facilities | (6.8) | (7.9) | 14% |
| - Other finance costs and interest income (net) | 1.4 | 2.9 | (52%) |
| **Underlying net finance costs** | **(16.2)** | **(13.1)** | (24%) |
| **Excluded from underlying finance costs** | **(9.3)** | **4.6** | n/m |
| **Total net finance costs** | **(25.5)** | **(8.5)** | (200%) |

Key profit and loss items for the year include:

- **Continuing sales revenue** of $1,657.1m was down 9% or $(156.1m), with $(10.5m) relating to operations wound down in F12 (wool indent) and $(145.6m) relating to ongoing Rural Services operations:
  - Australian Network sales were down $(69.5m), mainly in Farm Supplies $(45.1m) from lower demand for agricultural chemicals due largely to hot and dry conditions and in Livestock $(19.8m) from lower sheep and cattle prices.
  - New Zealand Network sales were $(4.0m) lower as drought destocking placed pressure on livestock prices and limited cash flow spending on farm inputs.
  - International Trading sales were $(72.1m) lower as a result of reduction in Indonesian import quotas impacting short haul shipping volumes and decline in shipments to China from uncertainties in government and regulatory changes affecting long haul shipping business.
- **Discontinued sales revenue** related to Automotive $304.1m (pcp $344.8m) and Forestry $1.4m (pcp $14.6m). Automotive division was sold on 31 July 2013.
- **Reported net finance costs** of $(25.5m) in F13 includes:
  - **Underlying net finance costs** of $(16.2m), which comprises:
    - Underlying finance cost on core debt $(10.8m) excludes interest to finance designated Forestry and Automotive assets being divested $(6.3m). Finance cost on core debt of $(10.8m) was $(2.7m) higher than pcp due to additional facilities sourced during the year to fund the divestment initiatives in the business.
    - Finance cost on self-liquidating facilities was down due to lower debt balance for Rural Services during the period (Sep 13 $146.9m, Sep 12 $163.8m).
    - Other finance costs relate to interest on overdue debtors $7.8m (F12 $8.9m), facility fees and other interest related items.
  - **Excluded from underlying finance cost** $(9.3m), comprises:
    - Interest expense related to divestment of Forestry and Automotive assets $(6.3m) [pcp $(14.0m)].
    - Finance costs related to Automotive's self-liquidating facilities $(3.8m).
    - F12 Interest income from the ATO as a result of the successful objection to an amended tax assessment $19.2m.

# Cash Flow

| Cash Flow | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | **F13** | **F12** | **F/(UF)** |
| Operating cash flow | (81.5) | 2.5 | (84.0) |
| Investing cash flow | 84.6 | 51.8 | 32.8 |
| Financing cash flow | (55.1) | (44.0) | (11.1) |
| **Total cash flow** | **(52.0)** | **10.3** | **(62.3)** |

| By Segment | Group Total | Auto-motive | Forestry | Excl Auto Forestry | Rural Services | Corp & Other |
|---|---|---|---|---|---|---|
| F13 Operating cash flow | | | | | | |
| - before working capital | (47.4) | 30.8 | (19.3) | (58.9) | (13.2) | (45.7) |
| - working capital movement | (34.1) | (27.2) | (32.6) | 25.7 | 22.8 | 2.9 |
| **Total operating cash flow** | **(81.5)** | **3.6** | **(51.9)** | **(33.2)** | **9.6** | **(42.8)** |

### Operating cash flow

Positive cash generation from Rural Services and Automotive in F13 were more than offset by cash outflow from Corporate and Forestry.

Rural Services and Corporate generated net operating cash outflow of $(33.2m). Features of operating cash flow include:

- Rural Services recorded cash inflow from operating activities of $9.6m, which reflects lower turnover together with the active management of debtors and Farm Supplies inventory.
- Corporate recorded an operating cash outflow of $(42.8m) mainly due to borrowing costs $(32.3m), head office costs $(5.7m), costs relating to initiatives to divest Automotive and Rural Services $(6.8m) and refinance costs $(3.2m).

Automotive operations generated an operating cash inflow of $30.8m before working capital movements of $(27.2m), which reflected requirements of new programs in USA and Thailand.

Forestry operations recorded cash outflow of $(19.3m) before working capital movements. Working capital movements $(32.6m) comprises payments associated with maintaining assets held for sale, including lease obligations prior to sale.

### Investing cash flow

Investing cash flow of $84.6m includes receipts of net $16.1m for sale of Automotive (gross receipts $43.5m less cash disposed $27.4m), $27.4m for 15% sale of Insurance JV, $63.8m from Forestry asset sales, partially offset by capital expenditure of $(25.4m) by Automotive on design and development for new contracts, together with expenditure on new facilities related to expansion of operations overseas.

### Financing cash flow

Financing cash flow of $(55.1m) in F13 includes the net repayment of term debt of $(37.4m) and a reduction in the balance of the self-liquidating facilities $(16.8m).

## Balance Sheet and Finance

| Balance Sheet: key items | | | | |
|---|---|---|---|---|
| *$m as at end:* | | **Sep 13** | **Mar 13** | **Sep 12** |
| **Assets and Liabilities: key items** | | | | |
| Inventory and livestock | | **153.0** | 187.8 | 234.4 |
| Trade and other receivables | | **340.2** | 340.5 | 498.0 |
| Trade and other payables | | **(254.5)** | (263.7) | (386.6) |
| Other assets | | **3.9** | 11.5 | 17.7 |
| **Working Capital** | | **242.6** | 276.1 | 363.5 |
| Assets(Liabilities) held for sale - net | | **6.1** | 135.0 | 71.5 |
| Property, plant and equipment | | **35.1** | 43.0 | 95.7 |
| Investments | | **62.7** | 74.4 | 80.5 |
| Intangibles | | **5.6** | 105.0 | 277.3 |
| Provisions | | **(81.5)** | (100.8) | (146.0) |
| **Net Debt and Equity** | | | | |
| - Borrowings - current: self-liquidating facilities | | **146.9** | 148.1 | 199.2 |
| - Borrowings - current: core debt | 1 | **121.2** | 234.9 | 103.8 |
| - Borrowings - non current: core debt | 1 | **26.6** | 3.5 | 82.8 |
| - Debt related financial derivatives | | **0.4** | 0.9 | 1.5 |
| - Cash and cash equivalents | | **(39.9)** | (73.3) | (92.0) |
| **Net debt** | | **255.2** | 314.1 | 295.3 |
| **Shareholders' equity** | | **46.2** | 251.1 | 551.8 |
| - Gearing % - core net debt / equity | | **234.4%** | 66.1% | 17.4% |
| - Gearing % - self-liquidating facilities / equity | | **318.0%** | 59.0% | 36.1% |
| Gearing % - net debt / equity | | **552.4%** | 125.1% | 53.5% |
| **Net Tangible Asset per share $** | | **0.07** | 0.19 | 0.40 |

[1] *Core debt = total debt less self-liquidating facilities*

### Assets and liabilities

Significant movements during the 12 months to 30 September 2013 include:

- A reduction to working capital by $120.9m:
  - Sale of Automotive, which held $38.4m working capital at 30 September 2012.
  - Reduced working capital in Rural Services of $65.4m in which:
    - Inventory and livestock were $44.1m lower as a result of the International Trading balance sheet adjustment of $18.6m and a reduction in Farm Supplies through improved business disciplines.
    - Receivables were $62.1m lower from reduced livestock turnover due to lower sheep and cattle prices, lower farm input sales due to hot and dry conditions and improved debtor management.
    - Payables were $50.5m lower from reduced trade payables due to lower turnover in livestock and reduction in year end farm supplies creditors compared to 30 September 2012.
- Assets held for sale (net of liabilities) comprised $4.9m related to Forestry and $1.2m investments held for sale as at 30 September 2013.
- Intangibles reduced by $271.7m as a result of the impairments in goodwill and brandname in Rural Services and Automotive.
- Provisions reduced by $64.5m mainly due to the utilisation and reassessment of Forestry onerous contract provisions during the year and divestment of Automotive business $(23.6m).

### Indebtedness

Net debt was $40.1m lower than at September 2012.

Gross borrowings of $294.7m at 30 September 2013 comprise a combination of core debt of $147.8m and self-liquidating finance facilities of $146.9m. Self-liquidating finance facilities are securitised by farm supplies receivables.

The group has reset its funding facilities to December 2014. There has been no change to the membership of the financing syndicate.

# Review of Operations

## Rural Services

| Rural Services | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | **F13** | **F12** | **F/(UF)** |
| **Sales - continuing operations** | **1,657.1** | **1,813.2** | (9%) |
| - Underlying | 1,657.1 | 1,802.7 | (8%) |
| - Excluded from underlying sales | - | 10.5 | (100%) |
| **Depreciation & amortisation** | 6.5 | 6.4 | (2%) |
| **Gross margin** | **253.4** | **309.0** | (18%) |
| - Australian Network | 233.3 | 257.7 | (9%) |
| - New Zealand | 19.1 | 16.9 | 13% |
| - Trading | 1.0 | 34.4 | (97%) |
| **Costs** | **(302.0)** | **(304.9)** | 1% |
| - Australian Network | (224.3) | (220.6) | (2%) |
| - New Zealand | (18.4) | (18.4) | 0% |
| - Trading | (23.2) | (22.0) | (5%) |
| - Support centres & other | (36.1) | (43.9) | 18% |
| **Equity accounted earnings** | **12.3** | **14.1** | (13%) |
| **Underlying EBIT** | **(36.3)** | **18.2** | (299%) |
| **Items excluded from underlying EBIT** | **(159.3)** | **0.4** | n/m |
| **Reported EBIT** | **(195.6)** | **18.6** | n/m |
| **Operating cash flows** | **9.6** | **21.3** | **(55%)** |

**Underlying EBIT** declined due to challenging seasonal and market conditions impacting the agribusiness sector, especially in F13 1H. The principal factors contributing to the change in underlying earnings have been:

- Reduced margin generated by the Australian Network as a result of extensive hot and dry conditions in Australia and depressed livestock values;
- Higher margin generated by the New Zealand Network by increasing market share in the wool business;
- Reduced margin from International Trading operations as a result of the deterioration in short haul livestock export markets that followed the curtailing of cattle import permits by the Indonesian government;
- Financial impact of the International Trading balance sheet adjustment; and
- Successful initiatives to control overall costs, specifically including reducing the costs in Support Centres (down $7.8m).

Underlying EBIT in 2013 included $(24.2m) arising from a balance sheet adjustment made as a result of the company identifying that trading results had not been recorded in line with accounting policies for the global cattle trading operations. This matter was announced to the ASX on 1 and 4 October 2013. The company has engaged PPB Advisory as independent forensic accountants to investigate the discrepancies further. As at balance date, adjustments were made to livestock valuations, creditors, debtors and provisions to bring the Trading balance sheet in line with accounting policies.

**Sales** from continuing operations reduced 9% to $1,657.1m, with lower sales in the Australian Network $(69.5m), New Zealand $(4.0m) and Trading $(72.1m) due to the adverse seasonal and market conditions.

**Gross margin** was down 18% or $(55.6m), with decreases in the Australian Network $(24.4m) and Trading $(9.4m) that were partly offset by improved margins in New Zealand $2.2m. Gross margin impact of Trading balance sheet adjustment was $(24.0m).

**Costs** reductions were mainly in Support Centres with benefits realised from the cost reduction program announced in July 2012. Support Centre costs reduced 18% or $7.8m from pcp. These reductions were offset by increased costs in Australian Network and International Trading.

# Australian Network

| Australian Network | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | F13 | F12 | F/(UF) |
| **Wool Agency** | | | |
| - Sales revenue | **47.9** | 50.6 | (5%) |
| - Gross margin | **15.1** | 15.5 | (3%) |
| **Livestock Agency** | | | |
| - Sales revenue | **83.3** | 103.1 | (19%) |
| - Gross margin | **58.9** | 74.3 | (21%) |
| **Real Estate** | | | |
| - Sales revenue | **46.1** | 49.1 | (6%) |
| - Gross margin | **26.2** | 26.7 | (2%) |
| **Farm Supplies** | | | |
| - Sales revenue | **999.9** | 1,045.0 | (4%) |
| - Gross margin | **105.2** | 114.6 | (8%) |
| **Banking Distribution** | | | |
| - Sales revenue | **20.8** | 20.5 | 1% |
| - Gross margin | **20.6** | 20.3 | 1% |
| **Others** | | | |
| - Sales revenue | **8.0** | 7.2 | 11% |
| - Gross margin | **7.3** | 6.3 | 16% |
| **Total Australian Network** | | | |
| - Sales revenue | **1,206.0** | 1,275.5 | (5%) |
| - Gross margin | **233.3** | 257.7 | (9%) |
| - Equity accounted earnings | **10.6** | 12.4 | (15%) |
| - Costs | **(224.3)** | (220.6) | (2%) |
| **Underlying EBIT** | **19.6** | 49.5 | (60%) |

**Sales Revenue and Margin:** Extreme temperatures were recorded Australia-wide in the first half-year and specifically in Eastern Australia in the second half, with the second warmest spring and hottest summer on record. These high temperatures, coupled with below average spring and summer rainfalls across Eastern Australia, resulted in lower crop plantings, lower crop disease and pest pressure, decreased demand for agricultural herbicides, reduced feed availability for livestock and continued subdued broadacre property markets.

- **Wool Agency**: Volumes were constant, however sales revenue declined 5% as the high AUD continued to put downward pressure on wool prices.
- **Livestock Agency**: High livestock slaughter rates have reduced the national cattle herd and sheep flock, with much lower re-stocker activity and reduced international demand placing downward pressure on prices. Livestock sales and margins declined mainly from the lower prices for sheep (down 29%) and cattle (down 18%).
- **Real Estate**: Broadacre property markets remained subdued, with adverse seasonal conditions impacting investment confidence levels.
- **Farm Supplies**: Sales were $(45.1m) lower due to reduced demand for insecticide, fungicide and herbicide products. Fertiliser sales were relatively stable compared to 2012.
- **Banking Distribution:** New lending increased 24% from previous year, benefiting from training and development of the banking staff, more active and targeted marketing and the increased effectiveness of the Elders-Rural Bank working relationship.
- **Other Revenue** includes income from accumulation of grain and distribution access fees from the Insurance and Financial Planning joint ventures.

**Costs** were 2% higher in line with an increased number of sales staff and inflationary increases in motor vehicle and property costs, partly offset by reduction in discretionary spending.

**Equity accounted earnings** are recognised for Elders' joint ventures, which include its financial services joint ventures Elders Insurance and Elders Financial Planning, AWH logistics operation and Auctions Plus.

| Equity Accounted Earnings - Australian Network | | | | |
|---|---|---|---|---|
| *$m 12 months ended 30 September:* | | | F13 | F12 |
| AWH | | 50% | **4.5** | 5.3 |
| Elders Insurance | [1] | 25% | **5.6** | 6.5 |
| Elders Financial Planning | | 49% | **-** | (0.2) |
| Auctions Plus | | 50% | **0.5** | 0.8 |
| Equity accounted earnings | | | **10.6** | 12.4 |

[1] 15% share was divested on 23 September 2013, with 10% share remaining at year end.

# New Zealand Network

| New Zealand Network | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | F13 | F12 | F/(UF) |
| **Farm Supplies** | | | |
| - Sales revenue | **37.6** | 40.6 | (7%) |
| - Gross margin | **3.5** | 4.0 | (13%) |
| **Wool Agency** | | | |
| - Sales revenue | **27.7** | 27.7 | 0% |
| - Gross margin | **11.5** | 8.2 | 40% |
| **Livestock Agency** | | | |
| - Sales revenue | **10.8** | 11.6 | (7%) |
| - Gross margin | **3.5** | 3.8 | (8%) |
| **Others** | | | |
| - Sales revenue | **0.5** | 0.7 | (29%) |
| - Gross margin | **0.6** | 0.9 | (33%) |
| **Total New Zealand Network** | | | |
| - Sales revenue | **76.6** | 80.6 | (5%) |
| - Gross margin | **19.1** | 16.9 | 13% |
| - Costs | **(18.4)** | (18.4) | 0% |
| **- EBIT Underlying** | **0.7** | (1.5) | 147% |

**Underlying EBIT** was $2.2m higher despite the majority of the North Island and much of the South Island experiencing an extensive drought in the first half of F13.

**Sales Revenue and Margin:** Lower sales occurred across all products in the New Zealand Network. This was offset by higher margin generated by Wool over pcp.

- **Farm Supplies**: Adverse seasonal conditions impacted demand for pasture products, with farmers curtailing discretionary spending. Farm Supplies sales declined $(3.0m) and margins reduced as competition intensified from lower demand.
- **Wool Agency**: Margins improved $3.3m with higher market share and increased proportion of higher margin trading sales together with reduced level of discounting of fixed fee service charges.
- **Livestock Agency:** The lack of feed and water, particularly in the North Island, depressed interest from re-stockers, resulting in reduced Livestock volumes and sales.
- **Other:** Other sales and margin decreased $(0.3m) as finance loan book is wound down, whilst continuing to generate income from insurance distribution.

**Costs** were lower from pcp with focus on discretionary spending but offset by higher NZD/AUD exchange rates.

# International Trading

| Trading | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | F13 | F12 | F/(UF) |
| **Global Cattle Trading** | | | |
| - Sales revenue | **171.8** | 227.2 | (24%) |
| - Gross margin | **(18.7)** | 17.1 | (209%) |
| **Feedlots** | | | |
| - Sales revenue | **112.5** | 130.6 | (14%) |
| - Gross margin | **11.2** | 10.7 | 5% |
| **NZ Wool Tading** | | | |
| - Sales revenue | **52.6** | 54.7 | (4%) |
| - Gross margin | **2.0** | 2.1 | (5%) |
| **Indonesian Operations** | | | |
| - Sales revenue | **29.3** | 27.2 | 8% |
| - Gross margin | **5.9** | 2.9 | 103% |
| **Others** | | | |
| - Sales revenue | **8.3** | 6.9 | 20% |
| - Gross margin | **0.6** | 1.6 | (63%) |
| **Total Trading** | | | |
| - Sales revenue | **374.5** | 446.6 | (16%) |
| - Gross margin | **1.0** | 34.4 | (97%) |
| - Equity accounted earnings | **1.7** | 1.7 | 0% |
| - Costs | **(23.2)** | (22.0) | (5%) |
| **- EBIT Underlying** | **(20.5)** | 14.1 | (245%) |

**Underlying EBIT** decreased $(34.6m) due to impact of the International Trading balance sheet adjustment $(24.2m), lower global cattle trading margins and increased costs, partly offset by improved profitability from domestic feedlots and Indonesian operations.

**Sales Revenue and Margin**

- **Global Cattle Trading:** Margins declined $(11.8m) through a combination of global commercial and regulatory market events impacting both the long haul and short haul businesses. This includes the Indonesian Government's reduction to its cattle import quota and uncertainties created by government and regulatory changes in China during 2013.

  The International Trading balance sheet adjustment also affected margin by $(24.0m) (refer to page 8 for further details of the adjustment).

  FY14 has seen increased demand for slaughter and feeder cattle in Indonesia with additional import quotas released by the government. Breeder cattle demand from China is strong, having responded to the improved trading confidence that has emerged following the change of government in that country.
- **Feedlots:** Lower residency levels due to prudent working capital management resulted in lower feedlot revenues. However, margins increased 5% as a result of ongoing productivity improvements at the Killara feedlot and increased custom feeding operations at the Charlton and Killara feedlots.
- **NZ Wool Trading:** Higher volumes were more than offset by lower prices, with sales down $(2.1m) and margins marginally below pcp.
- **Indonesian Operations**: Favourable market and trading settings in Indonesia generated strong sales and margin outcomes. Specifically, the significant demand for beef from the Elders' feedlot at Lampung, Indonesia in a very tight supply environment underpinned the improved sales and increased margin by $3.0m.

**Costs** were $(1.2m) higher through a combination of higher operating expenses across the feedlots and additional regulatory compliance costs.

**Equity accounted earnings** relates to investment in Kilcoy Pastoral.

## Corporate (Investment and Other)

| Corporate Results | | | |
|---|---|---|---|
| *$m 12 months ended 30 September:* | **F13** | **F12** | **F/(UF)** |
| Costs | **(5.7)** | (10.0) | 43% |
| **Underlying EBIT** | **(5.7)** | (10.0) | 43% |
| **Items excluded from underlying EBIT** | **(18.5)** | (21.1) | 12% |
| **Reported EBIT** | **(24.2)** | (31.1) | 22% |
| **Operating cash flows** | **(42.8)** | 12.5 | (442%) |

Corporate represents Elders' corporate operations, including Elders directors, Chief Executive Officer, Company Secretary, Legal, Risk and associated compliance costs.

Underlying EBIT increased by $4.3m as a result of reduced costs.

Items excluded from underlying profit/(loss) are as detailed in page 3.