

ASX ANNOUNCEMENT: 26 March 2010**CEO & CFO on Forestry Review**

Open Briefing with CEO Malcolm Jackman &
CFO Mark Hosking



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In this Open Briefing[®], CEO Malcolm Jackman and CFO Mark Hosking discuss:

- Reasons for conducting a comprehensive review of Elders Forestry assets
- Asset values to be reviewed
- Performance of overall business year to date

Open Briefing interview:**openbriefing.com**

Elders Limited today announced an external review of the asset values in its Forestry business. Your recapitalisation prospectus, issued in September 2009, contained detailed information, and presumably updated asset valuations, of each of your businesses. What has changed so significantly in the last six months that an asset review is required?

CEO Malcolm Jackman

Essentially we are expanding, accelerating and integrating reviews that would ordinarily be performed. We're doing that so we can get an informed, cohesive answer on what the developments within the sector and in Elders Forestry mean for shareholders.

Like all companies, we would ordinarily review asset values in the course of the half yearly or annual accounts preparation. For forestry enterprises these periodical reviews typically include adjustments to recognise revisions to anticipated income arising from variations in price, anticipated yields and changes in property values.

What is different in this case is that we have chosen to bring forward the asset review process and to expand it to include the totality of Elders Forestry assets. Ernst & Young will oversee reviews of 100 percent of our land holdings and of anticipated plantation yields. Normally we would review land values on a rotational basis, examining one-third of our property estate each year.

We have chosen to do this in view of the increased uncertainty within the sector arising from the events of last year and developments specific to our company.

For example, there is now an unprecedented volume of forest and plantation land on the market as a result of the liquidation of other industry participants and the sale of forest estates.

We will be receiving the first five year growth assessment of our large 2004 and 2005 project plantings and we will also be receiving information on the growth and forecast yields of plantations in specific regions where local factors such as drought or, as we have reported in the case of Central Queensland, a fungal infection, have impaired growth rates or caused tree mortality. There is some uncertainty about the MIS market this year and the impact of recent corporate news flow on confidence in the sector. We also hope to finalise a new benchmark price for certified woodchip with our Japanese customers shortly, and any variation there will also feed through to the value of our accrued income and trees on our balance sheet.

Rather than deal with these matters on an ad hoc, piecemeal basis, we think it's far better to take the bull by the horns, subject the whole asset base to independent scrutiny and determine what the balance sheet and earnings impact could be in a co-ordinated manner.

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Does the appointment of Ernst & Young to manage the review signal that this is an accounting review?

CEO Malcolm Jackman

No, while there may be accounting implications arising from the review, Ernst & Young's role will be to oversee a comprehensive process that will include tree growth and productivity, harvest forecasting, property valuation and financial modelling. Ernst & Young will review and scrutinise all the work performed, and its rigour, and then report to the Elders Board of Directors.

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What are the principal asset items on the Forestry balance sheet and what are the drivers for their valuation?

CFO Mark Hosking

Essentially there are 5 broad asset groups. The most significant are freehold plantation property and accrued income. These land holdings comprises some 47,000 hectares of freehold land (we lease the balance of the 170,000 hectare estate) which has a total value of approximately \$288 million. These land holdings are classified as "investment property" and carried at "fair value".

Accrued Income recognises the anticipated future revenue to Elders Forestry from the harvest and sale of woodchip. Based on our most recent forecasts, this accounted for an asset value of approximately \$170 million. This item is driven by woodchip productivity forecasts and prices. Elders Forestry also owns trees in its own right valued at \$30 million.

We have shareholdings and investments in a number of forestry companies and joint ventures the most significant of which was a 13.5% stake in Forestry Enterprises Australia

(FEA). These had a total value of investments \$34 million at 30 September. As we have advised, we have written down the value of our shareholding in FEA.

Goodwill accounts for \$43 million, and this will be influenced by MIS industry conditions and our sales performance.

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The prospectus forecast a material increase in underlying EBIT in the Forestry business to \$14.1 million and you've indicated that the business is performing to plan. Given the uncertainty you've highlighted in the sector, what level of confidence do you have in the performance going forward and what are your expectations regarding MIS sales in the current year and beyond, particularly in light of increasing investor disenchantment with these products?

CEO Malcolm Jackman

Forestry is performing as we would expect it to at this time of year, when activity is around selling and exporting chip. The big issue is around MIS, the major part of the business, where sales happen in May/June.

The recent corporate failures and the financial difficulties faced by others in the sector are putting a lot of stress on the whole industry so there's a fair amount of uncertainty what the outcome will be in terms of MIS sales. We continue to operate as normal: putting out our product disclosure statements (PDS) for our various projects, getting ATO and regulatory approvals, and setting up finance so investors can borrow money to put into the projects.

Grower finance is one of the most important ingredients, and we have secured in principle agreement for bank finance facilities for investors in our 2010 product offering. The 2010 Project offers significantly greater protection to investors.

Last year our market share grew in a very tough market and we believe our offering and our reputation position us particularly well. But that may not count for much if the macro issues in the MIS sector mean investors lose interest in the products. We expect demand for MIS products to continue in the 2010 season and believe there is a very real prospect that demand for MIS may exceed supply.

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Elders has resolved that its 13.5 percent holding in FEA is non-core, and you've now classified it as an asset held for sale, which will necessitate a realignment of the carrying value to equity value rather than NTA and is expected to result in a write down of about \$26.7 million. What are your plans for the FEA equity holding?

CEO Malcolm Jackman

Divestment of the shareholding is our objective. But for the moment we are awaiting resolution of FEA's current financial position and its return to ASX trading.

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In a recent presentation to investors Elders said that after a slow start, the trends so far in the current year ending September 2010 support your prospectus forecast of underlying

EBIT of \$84 million, up from \$12.8 million in the 15 months to September 2009. How have trading conditions in the year to date varied from your assumptions and, apart from Forestry, what are the key risks to achieving the prospectus forecasts?

CEO Malcolm Jackman

In the first quarter to December, weather conditions matched our forecasts but trading conditions were different: with weaker than expected prices for both soft commodities on the demand side, and hard commodities on the supply side, sales were weaker than we projected.

In the second quarter we've seen a lot of rain on the east coast, which has essentially broken the drought and cemented a much stronger medium to longer term outlook. We've seen soft commodity prices kick up over their lows, particularly around livestock and wool, not so much around grain. We've also seen the exchange rate stabilise and hard commodity prices start to rise as well. That has brought strong buying patterns from the farming community, which is delivering very strong volumes compared with the prior year, particularly on the supply side, and that's very positive for us.

The key risk to achieving our prospectus numbers in Rural Services is around the winter break, which we'd expect to occur across the south in mid to late April and across the west in May. Provided we get that, we're in pretty good shape. Risks also continue around commodity prices, both soft and hard, and any radical deterioration in the Australian dollar or any rapid change in interest rates would have an impact on farming communities as well.

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You expect your core Rural Services business to generate underlying EBIT of \$73.4 million in the current year, up from \$32.3 million in 2009, with EBIT margin rising to 2.8 percent from 0.5 percent. Most of the margin uplift, about 2 percentage points, is expected to come from improved trading, with 0.6 percentage points from cost initiatives. How does performance year to date compare with these targets?

CEO Malcolm Jackman

In 2009 we had significant write-downs of inventory and significant margin deterioration due to the sharp falls in hard commodity prices. We've seen none of that this year and we're reasonably comfortable the margin improvements will come through as expected. Our cost initiatives are working well, and we're doing a lot of work around the supply chain as well.

To date, we're comfortable with the forecasts but we'll need improving pricing to hold for us as well.

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Over the medium term you're targeting margins of 5 to 6 percent in Rural Services. What are the specific initiatives that will lead to margins increasing to this level?

CEO Malcolm Jackman

They fall into four buckets: costs, go to market, supply chain, and operational excellence. On costs, we reduced costs by \$22 million in 2009 and we expect further savings in the

current year. “Go to market” is about focusing on the customer and tailoring our offering to customer needs rather than being the product driven organisation we were. It’s also around getting the right pricing discipline in the business.

In the supply chain, we’re focused on reforming our procurement, warehousing and logistics functions so we buy and move stock in the most effective and efficient way. We have an annual procurement spend of over \$1 billion, so the potential savings are significant. We also need to get the right sort of supplier relationships in place and ensure risk is shared fairly.

Operational excellence is about standardising processes across our network, and with 300 branches servicing 115,000 customers, there are clear efficiencies in establishing standard practice across the network. In the past we’ve tended to do tasks in different ways at each branch, and we need to get out of that habit.

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The prospectus also looked for a turnaround in Automotive, with EBIT of \$6.5 million, versus a loss previously. Can you comment on current trading conditions in the Automotive business?

CEO Malcolm Jackman

They’re positive, both here and internationally. Whether or not it’s true that automotive is first into a downturn and first out, we’re certainly seeing very strong volume growth in China and robust growth here in Australia. We’re taking advantage of those trends and we see lots of opportunities to do more for our existing customer base, both here in Australia and in China.

The Automotive business is still an asset held for sale and as the industry generally continues to improve, we’d expect to see more interest in the business from potential buyers.

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As at the end of September 2009, Elders had proforma net debt of \$387.9 million and gearing of 31.5 percent. You do not expect the Forestry asset review to present any threat to your position versus your finance covenants. What is the current position relative to the covenants, which include maintaining an interest cover ratio of at least 1.2 times and debt to EBITDA of under 6 times?

CFO Mark Hosking

Currently we have net debt of approximately \$320 million, so we’ve continued to improve our gearing such that it’s now down to 27 percent. We’re also within all of our financial covenants and have been operating that way since our refinance and recapitalisation. The covenant we monitor most closely at this time of the year, ahead of our peak season, is cash. Our covenants require us to maintain a \$40 million cash buffer, and we’re within this covenant, as well as all the others.

It’s also worth noting that since our results announcement in November, we’ve completed the sale of our timber business to Gunns, for which we received about \$90

million, but have also had some cash outflow from operations, which is not unusual for this time of the year, as we accumulate inventories ahead of our peak selling season.

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Longer term you're seeking to leverage Elders' position "at the farm gate" to the growing value of agricultural and soft commodity trade in the Asia Pacific region. To what extent will taking advantage of these opportunities require further significant restructuring of the business?

CEO Malcolm Jackman

I don't believe the business needs further significant restructuring. We continue looking to exit our non-core assets such as Hi-Fert and the Automotive business, and pare back our operations to our agribusiness base. As we do that, and as our balance sheet strengthens, we'll be looking to invest more money in the business and grow it both on the demand and supply side. There may be no major restructuring, but we see our business continuing to evolve as we look to realise the many opportunities we see in front of us.

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Thank you Malcolm and Mark.

For more information about Elders Limited, visit www.elders.com.au or call Don Murchland on (+61 8) 8425 4617

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