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Company Announcements Office  
Australian Securities Exchange

## **Completion and outcome of Forestry Asset Review**

### **Main features:**

- Board initiated independent review completed on time, 30 April
- Independent review has supported property values across the plantation estate with the exception of Central Queensland.
- Property values in Central Queensland revised to anticipated net realisable value
- Forecast yields and income from Central Queensland and Esperance revised downward to reflect new production forecasts
- FY10 Underlying Profit to be impacted by \$(4.3) million after tax through reduction to anticipated accrued and rental income. FY10 earnings guidance and forecasts reduced by \$(7.7) million after tax through underlying impact and loss of income now considered non-recurring.
- FY10 Total reported profit to be impacted by \$(136.9) million after tax, principally through balance sheet adjustments of \$(133.1) million.
- No material impact on position within finance covenants, which Elders is meeting and expects to continue to do so
- Positive cash impact forecast for 2010-13; reduced cash income from plantations thereafter.
- Revised long term cash flow forecasts still strong with anticipated sales rising to 2.5 million green metric tonnes per annum in next 5 years.

Elders Limited [ASX:ELD] announces that the Review of Forestry Assets as advised to the ASX on 26 March 2010 has been completed. The Board initiated the Review to provide an externally reviewed and comprehensive examination of the implications for asset values arising from recent forestry sector developments and the anticipated receipt of the yield forecast reports.

The review has confirmed the Company's current property values across the plantation estate, with the exception of Central Queensland which will be subject to a material writedown. Forecast yields from Central Queensland and Esperance have been reduced materially with consequent writedown to accrued income attributed to these areas. Yields and property values in other regions (which include Albany, the Green Triangle, Bunbury, Kununurra, Tasmania, and North Queensland) are unaffected.

As advised in the Company's 2009 Annual Report, the Central Queensland pulpwood plantation has been affected by fungal disease. Investigations and reports commissioned subsequently to

assess and quantify the impact of the fungal infection have determined that plantations are unlikely to yield a commercial return. Accordingly it is proposed that the land now be cleared and sold. In Esperance, yields are now forecast to be lower than expected due to the impact of lower than expected rainfall.

While these outcomes have resulted in total balance sheet write downs and provisions of \$133.1 million to forestry asset values and will reduce FY10 earnings guidance for underlying profit by \$7.7 million after tax, the Company remains within its finance covenants.

Elders Chief Executive Malcolm Jackman said: “Elders initiated the Review to get clear and independent advice on the value of its forestry assets in view of the uncertainty in the sector and recent developments in our own operations” said Malcolm Jackman.

“The end result is that the review has confirmed the conservatism of Elders’ property values for all but those regions which have been affected by externally driven unfavourable events.

“The financial impact of the results in Central Queensland and Esperance is extremely disappointing, both for the grower investors concerned and Elders shareholders. In the coming weeks we will be communicating with all affected growers and their financial advisors on the position of their investment.

“For several years, Elders Forestry, or ITC as it was previously known, has been unique amongst plantation companies in the level of retained equity and shared interest with the grower over the life of the project. This provides Elders with an ongoing and significant financial interest in the success of the individual plantations. Where events such as this occur, there is clearly an impact on our earnings expectations.

“However, our long term cash flow expectations from this business remain positive, notwithstanding the revision to yield estimates arising from Central Queensland and Esperance.

“We are continuing to experience strong demand for the certified woodchip from plantations and volumes are anticipated to increase from approximately 400,000 to approximately 2.5 million green metric tonnes per annum in the coming 5 years.

“The cash flow benefits of this in the near term will be supplemented by the inflow of approximately \$40 million over the period to 2012 as we divest plantation property that we no longer require,” Mr Jackman said.

## **Background to Review**

Ernst and Young were commissioned to oversee the Review, analyse the procedures undertaken by the Company to review asset carrying values and report to the Elders Board of Directors. The review involved expansion and acceleration of assessment typically conducted at balance date to include 100% of Elders’ freehold estate and of future income and harvest yield forecasts.

Colliers International were engaged to provide advice in respect of the regions in which Elders Forestry properties are located.

In addition, the process also incorporated the receipt and review of reports on the Central Queensland and Esperance plantations and management inventory assessments of the 2004 and 2005 plantations.

Specific reports were commissioned on Central Queensland and Esperance in light of regional specific events that have become apparent:

- In respect of Central Queensland, where the Company has reported plantations have been affected by fungal infection which has caused tree mortality and impaired growth and wood quality.
- In relation to Esperance, where a “fast-track” inventory assessment of the 2005 project was initiated after receipt of the inventory report for the 2004 planting identified yield rates below expectations.

### **Key Findings**

The key findings of the Forestry Asset Review concerned the issue of forecast yields and freehold property valuation.

#### *Forecast yield*

Management inventory assessments for the 2004 and 2005 projects have resulted in substantially lower forecast yields for plantations in Central Queensland and Esperance.

Forecast yields from Central Queensland plantations have been downgraded to the point where no commercially viable market is anticipated as a result of the impact of the *Kirramyces* fungal outbreak. Accordingly, it is proposed that plantations in the region will be closed without harvesting, and the associated property remediated and sold. Further discussion of the *Kirramyces* outbreak is provided in the annexure to this announcement.

Forecast yields from Esperance 2004 and 2005 projects have been downgraded as a result of low growth rates brought by insufficient rainfall. These plantations are expected to produce merchantable quantities of timber and will continue to operate until harvest. Further information on the Esperance plantation is provided in the annexure to this announcement.

#### *Property valuation*

The carrying value of freehold plantation properties outside Central Queensland (which represents \$198 million of the total freehold investment property value of \$288 million at 30 September 2009) has been supported.

The proposed closure of Central Queensland operations will result in the 29 freehold properties in the region being made available for sale, with impairments being made to align values with net realisable value inclusive of remediation costs.

## Accounting and financial implications

The accounting and financial implications of these findings is summarised below. More detailed discussion and reporting of financial impacts is provided on the annexure to this announcement. The accounting adjustments principally relate to the revisions to accrued income and property value associated with the Central Queensland and Esperance plantations. In addition, goodwill associated with the forestry operations has been written down to zero.

The FY10 impact to profit and loss represents a downwards adjustment of \$11.0 million to prospectus earnings guidance for EBIT and by \$7.7 million for underlying profit after tax. These impacts incorporate the loss of income originally anticipated from ongoing projects (underlying impact) and from projects now expected to be discontinued (Central Queensland).

Elders will remain comfortably within its financial covenants after recognition of the impacts of the forestry asset review. Furthermore, the Company's expectation of remaining within its financial covenants remains unchanged.

### Profit and Loss:

Impact \$ million	H1 10 pre-tax	H1 10 post-tax	FY10 pre-tax	FY10 post-tax
Underlying Profit	(3.1)	(2.1)	(6.1)	(4.3)
Non-recurring items				
- Non-recurring income	(12.7)	(9.1)	(15.1)	(10.7)
- Other balance writedowns & provisions	(121.9)	(121.9)	(121.9)	(121.9)
Total Reported profit impact	(137.7)	(133.1)	(143.1)	(136.9)

Profit and loss impacts include estimates of accrued income which will not be earned in FY10 as previously expected. Underlying impact arises from anticipated accrued income that will not be received from ongoing projects. The impact of the loss of accrued income from the Central Queensland projects proposed to be discontinued is recognised as a non-recurring item.

### Impact on key Forestry Balance Sheet Items (Pro Forma):

\$ million	Value as at 30 Sept 09	Adjustment	Revised pro-forma carrying value
Accrued income	149.1	(31.9)	117.2
Own Trees	27.0	(3.7)	23.3
Investment properties	283.8	(34.0)	249.8
Tax balances	(11.8)	4.6	(7.2)
Other & Provisions	172.4	(24.3)	148.1
Goodwill on forestry assets	43.8	(43.8)	-
Total balance sheet adjustment		(133.1)	



## Annexure to Elders Limited ASX Announcement on Review of Forestry Assets

### Detail of Full Year EBIT revisions and impairments

<i>\$ million before tax</i>	Underlying	Non-recurring	Total Reported Profit
Revision to FY10 accrued income	(5.1)	(4.9)	(10.0)
Revision to FY10 property valuations	(1.0)	-	(1.0)
Revision to pre-FY10 accrued income	-	(26.8)	(26.8)
Revision to Own Trees	-	(3.7)	(3.7)
Central Queensland Property Fair Value Adjustments	-	(23.0)	(23.0)
Goodwill	-	(43.8)	(43.8)
Onerous lease provisions	-	(15.0)	(15.0)
Other	-	(19.8)	(19.8)
<b>Total</b>	<b>(6.1)</b>	<b>(137.0)</b>	<b>(143.1)</b>

### Central Queensland plantations

Elders Forestry manages approximately 25,650 ha of pulpwood and solidwood plantations in Central Queensland which form part of the ITC MIS projects marketed between 2000 and 2007. Elements of these plantations have become subject to fungal infection, principally an outbreak of *Kirramyces* spp, a fungal pathogen which has not been observed in commercial hardwood plantations previously.

The *Kirramyces* pathogen appears to have only affected the particular eucalypt hybrid, *Eucalyptus grandis* x *Eucalyptus camaldulensis* (*Eucalyptus GC*), which was planted predominantly for pulpwood. As the fungus has only affected *Eucalyptus GC*, it is not considered a biosecurity risk. Another variety, *Corymbia citriodora* subspecies *variagata* (*CCV*) planted for pulpwood in the region has also been the subject to a less severe infection from the *Quambalaria* fungus. ITC, as the forestry company was then known, consulted with relevant government and scientific authorities from the outset of *Kirramyces* but the fungus has proven resistant to various treatment or mitigation strategies applied.

Initial outbreaks in 2006 were not substantial and affected trees appeared to recover. However the fungus returned with greater vigour in 2008 following unseasonably high rainfall in that and the previous year. In 2009 the fungal infection assumed greater significance. The financial effect of the disease could not be quantified at the time of the Company's annual report for that year and further review and analysis was initiated. The completion of this process has led to the conclusion that there is no economic value in the Central Queensland *Eucalyptus GC* plantation once the anticipated severely diminished yield and the lower prices anticipated for the affected wood are

taken into account. It is proposed that the Central Queensland pulpwood operation be closed forthwith, with land to be remediated for sale unless suitable alternative offers are received. This excludes the 2006 and 2007 projects which have either been replanted or relocated elsewhere. The affected Central Queensland projects account for \$68.5 million of the impairments announced. As the pulpwood operation is being closed, its FY10 anticipated accrued income is included in the one-off non-recurring items.

The High Value Timber plantations in other locations in Queensland involving Teak, Red Mahogany and Sandalwood are unaffected by Kirramcyes and are progressing satisfactorily.

### **Esperance plantations**

Elders Forestry manages approximately 50,290 ha of pulpwood plantation in the Esperance region of Western Australia, approximately 44,000 of which is managed on behalf of MIS investors. Rainfall in the region in recent years has been well below long term average. The 2005 pulpwood project has been particularly affected by the extremely low rainfall in 2006 when rainfall after planting was approximately half the long term average.

The receipt of low 5 year inventory volume reports in respect of the 2004 project prompted an acceleration of the 2005 inventory assessment to coincide with the Forestry Asset Review. While the Esperance plantations are expected to produce merchantable quantities of woodfibre, the forecast volumes are expected to be materially lower than forecast. Proceeds from the woodfibre produced from the region are also expected to be adversely affected by the increase in unit costs for harvest, handling and port fees brought by lower production and sales volumes.

Adjustments have been made to accrued income and the value of own trees to reflect the lower financial return anticipated from these projects.

### **Land holdings in other regions**

Elders Forestry holds 85 properties outside Central Queensland. These were subjected to a desktop review by Colliers International through comparison of regional values against market researched data. The review indicated that while there were some immaterial positive and negative variances, the net effect across the estate is that the independent review supported the value of these Investment Property assets.

Testing of the anticipated economic benefit of leased properties has resulted in an onerous lease provision of \$15.0 million to be recognised as a non-recurring item.