



17 May 2010

Elders results turnaround with increased profit for 2010 First Half

Financial results for six months to 31 March 2010

- Underlying EBIT of \$21.3 million up from \$1.6 million in pcp
- Underlying Profit after tax to Shareholders of \$1.1 million vs pcp loss of (\$21.8) million
- Non-recurring items totalling loss of \$(167.0) million after tax
- Reported (Statutory) Loss of (\$165.9) million vs pcp Statutory Loss of \$(328.8) million
- Gearing of 36%, down from 128%

Elders (ASX:ELD) has announced significantly improved profit, cash flow and operating performance with the release of its 2010 first half results.

The financial results, the first half year report since the Company shifted to a September year end, featured a strong turnaround in earnings and cash generation for the period.

Elders recorded underlying profit to shareholders of \$1.1 million for the six months to 31 March compared with the loss of (\$21.8) million in the six months to 31 March 2009 (the prior corresponding period) and the underlying loss after tax of \$(26.3) million reported for the 2009 first half, (the six months to 31 December 2008).

Underlying EBIT for the 2010 first half was \$21.3 million, up from \$1.6 million in the previous corresponding period.

The 2010 first half accounts included non-recurring items totalling \$(167.0) million; chiefly arising from the results of the Forestry Asset Review announced recently and the writedown of the value of Elders' shareholding in Forest Enterprises Australia Limited. As a result, Elders reported a Statutory Loss of \$(165.9) million for the period which compares with a Statutory Loss of \$(328.8) million in the six months to March 2009.

Elders Chief Executive Malcolm Jackman said that the financial results evidenced improvement across the Company's operations. There is a very real sense that our turnaround plans are gaining momentum."

"While the headline results point to the impact of lower prices, the key performance measures show Elders is performing better. We can't determine market prices and activity, but are achieving improvement in the key metrics that we can influence and which we targeted at the start of the year.

"For example, each of our operating businesses has made progress in our target areas of margin, cash generation and costs" said Malcolm Jackman.

Elders Rural Services' underlying EBIT generation of \$12.6 million was broadly in line with the previous corresponding period's result of \$13.2 million.

“Although the Rural Services underlying EBIT is just behind last year’s March result, this was achieved despite a \$5 million drop in contribution from Meat and Livestock trading and price falls of the order of 30% to more than 40% for key product lines such as fertiliser and agricultural chemicals. The change to our insurance distribution model also had a \$9 million negative impact on EBIT for the half when compared with the prior corresponding period.

“Closer examination shows that our Australian network operations are performing at a higher level than last year. Network contribution rose on lower sales revenue, margins have been improved and costs reduced further” Malcolm Jackman said.

“The cash result is particularly pleasing. “Better cash generation and management was one of the first needs identified for the business in the Agenda for Change program. We are now starting to see the benefits of what has become an absolute priority throughout the Company.

Rural Services generated cash of \$9.9 million from operating activities in the six months to March compared with the outflow of (\$74.3) million in the previous corresponding period. Due to seasonal trends, Elders’ cash generation is typically strongly weighted to the closing six months of the year. Sales revenue generated by the Australian network operations fell by 13%, with almost all of the reduction attributable to the impact of lower prices for farm supply lines.

“The recovery in grower confidence and demand volumes has been very encouraging. However the lower prices for major agricultural chemicals and fertilizer products have more than offset the volume growth. The good work done by the business in improving margin and reducing costs means that Rural Services has been able to absorb the impact of prices to a large degree” Malcolm Jackman said.

Contribution from Elders’ Meat and Livestock trading operations was affected by reduced ship availability and the closure of the Indonesian market during the period. Income from these activities rebounded in the second quarter and is expected to improve in the six months to September.

Network related activities, which include Elders shareholdings in Rural Bank, Elders Insurance and its supply chain joint ventures, lifted its contribution by \$1.9 million.

Elders Forestry operations contributed underlying EBIT of \$7.4 million up 72% on the previous corresponding period’s result of \$4.3 million. Reported results were affected by non-recurring items totalling \$174.4 million made to align asset values with the findings of the Forestry Asset Review and to write off the Company’s shareholding in FEA.

Malcolm Jackman said “The conclusions of the Forestry Asset Review were extremely disappointing in respect of Central Queensland and Esperance and the returns now expected from those regions. However, we have received independent affirmation of our property values from all areas outside Central Queensland.

“Our expectations for future woodfibre demand and sales for all other regions remains strong. We look forward to growing cash flows from our Forestry operations over the next 5 years as sales rise from the current level of approximately 400,000 tonnes per annum to over 2.5 million tonnes per annum” he said.

Elders Forestry is expected to shortly commence marketing of its 2010 MIS projects, subject to finalisation of conditions for the provision of bank finance for growers.

Automotive operations proved to be the major contributor to Elders’ earnings growth for the period, contributing Underlying EBIT of \$8.6 million compared to the previous corresponding period’s underlying EBIT loss of \$(10.3) million. Cashflow from Automotive operating activities was \$22.7 million compared with \$12.3 million in the six months to March 2009.

“The improvement reflects the sound path that has been taken by the Futuris Automotive management since the sector entered a severe downturn some 18 months ago. We are now seeing the benefits of those decisions with higher income and new contracts both in Australia and overseas” Malcolm Jackman said.

Balance sheet and gearing outcomes for the period reflected the benefits of the recent recapitalisation and refinancing and the strong cash generation during the period. Net debt and gearing as at 31 March were, \$378.7 million and 36% respectively compared with \$900.7 million and 128% at the beginning of the period. Mr Jackman said that Elders financial metrics remained “well within” its financial covenants.

Outlook

Elders anticipates further improvement in the second half of the financial year. While season breaking rain is yet to occur in Western Australia, the conditions elsewhere in Australia are distinctly positive.

The June Quarter is typically the most important period in the Company’s profit emergence cycle, encompassing the seasonal peak in farm supplies demand and the MIS selling season. Current year results are also expected to benefit from the impact of rainfall in eastern and central pastoral regions in the first half and increased live export activity.

Accordingly, the Company anticipates a substantial lift in its earnings in the second half, given suitable rainfall in Western Australia and suitable market conditions. This is expected to be sufficient to support the achievement of the prospectus forecasts (as modified by the recent forestry announcement) for underlying earnings and profit to shareholders.

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