



20 December 2011

2011 AGM - Chairman's Address

Attached is a copy of the Chairman's Address to the 2011 Elders Limited Annual General Meeting being held in Adelaide today.

Peter Hastings
Company Secretary
(08) 8425 4964

Address by the Chairman, Mr John Ballard, to the 2011 Annual General Meeting of Elders Limited

20 December 2011

Your Company released its results, and its annual report, for 2011 just over 5 weeks ago. The announcement and report provide the statutory and additional disclosures on Elders' financial results and its financial position, which in summary comprised:

- a statutory loss of \$(395.3) million after tax, recorded after non-recurring items of \$(400.0) million;
- an improved underlying profit at the EBIT level of \$33.7 million up from last year's comparative of \$2.6 million;
- and, on an after-tax-basis, an underlying profit of \$4.7 million up from last year's underlying loss after tax of \$(15.1) million;
- and, significantly, a 21% reduction in net debt.

In addressing you today, I do not propose to revisit the detail and analysis that has been provided in the report and other supporting documents lodged with the ASX.

Slide: 3 Critical questions

Instead, I wish to address fully the 3 critical questions raised by the year's financial and share price performance:

- 1) Why, and how, has the Company recorded such a large statutory loss?"
- 2) Why has Elders decided to withdraw from Forestry operations and why has this decision had the financial impact it has?
- 3) When can shareholders expect to see substantive improvement in financial results and more importantly, the share price?

Slide: Critical Question 1

Turning to the first of these questions, Elders' large statutory loss for 2011 is essentially attributable to the writedowns and provisioning in respect of assets, operations and agreements which are no longer part of the Company's continuing operations.

Thus, the year's profit results for 2011 comprise an underlying profit of \$4.7 million after tax, which was offset by a net loss of \$(400.0) million from non-recurring items, overwhelmingly from the writedown in the value of Forestry assets and associated provisions.

A further \$23 million after tax of non-recurring charges and costs arose from the refinancings and debt restructuring which were completed during the year.

These restructurings, which simplified and extended Elders' debt facilities, saw Elders repay its USPP debt early and, in doing so, crystallised a number of charges as provisions and foreign exchange positions relating to the terminated debt were closed.

I should point out that, notwithstanding these costs, the refinancings have clearly and considerably improved Elders' funding arrangements.

Term and committed cash lines have been increased.

A syndicate of 5 banks has replaced the previous structure which involved 8 banks and 19 US private placement holders.

Importantly, the banking syndicate now includes Rabobank as a core relationship financier. Rabobank is acknowledged as one of the world's leading specialist agribusiness bankers.

As I have already outlined, I will address the question of Forestry shortly.

But there were a number of other divestments which contributed to the non-recurring items and the statutory result.

These divestments shared the common purpose of reducing involvement in capital intensive activities, most of which produced an unacceptably low profit return.

The assets and operations discontinued or restructured included the sale of the Company's shareholding in Rural Bank, the sale and re-chartering of the MV Torrens, the cessation of our involvement in wool and grain trading and the consolidation and re-focussing of our Chinese operations.

With the exception of the Rural Bank shareholding, these operations were not sufficiently profitable in their own right. Their discontinuation has brought costs and non-recurring items in 2011 but also released capital which can be redirected into a more sharply focussed Rural Services business.

Slide: Critical Question 2

Now, on to Forestry, I wish to address the question of why Elders has decided to withdraw from this sector and why this decision has had such an adverse impact on the year's results.

Elders' position in Forestry is substantial, having encompassed some 50,000 hectares of freehold land and the management of 170,000 hectares of plantations in a number of regions. In total, the forestry assets had a book value of \$523 million at the beginning of the year.

The Company has been the largest remaining player in the supply of certified plantation woodchip to Japanese markets, shipping up to some 850,000 green metric tonnes per annum, with the volume available for shipment forecast to grow to over one million tonnes per annum in the coming years.

This position is the result of a decision by the board of Futuris, as the Company was then known, to invest \$623 million to build a leadership stake in the sector, which was anticipated to benefit from structural changes in global woodchip markets. These changes would see plantation-grown product replace native grown woodchip as the preferred and major feedstock for growing Asian and in particular Chinese paper production.

However, a number of events, including the contraction of Japanese demand and the sharp falls in woodfibre prices in 2011 have undermined the case for our investment to the point where it no longer measures up for Elders shareholders. In 2011, the funds invested in forestry yielded a trading loss of \$(4.4) million and absorbed cash of \$29 million in operating cash outflow.

For Elders shareholders, the cash and profit payback from our forestry investment is now too far away and too small to justify retention – especially in comparison with the superior alternative cash and profit outcomes that are available from releasing and redirecting capital to debt reduction or investment in our ongoing businesses.

The nature of the forestry asset base, with its diverse nature and, in some cases, encumbrances mean that a progressive divestment strategy will optimise the capital return for Elders shareholders.

The 2011 accounts include adjustments of some \$324 million after tax to bring balance sheet values into line with the best current estimate of what may be realised from the sale process, including the need to provide for onerous contracts and other expenses.

The major share, or approximately three-quarters, of the total forestry adjustments is accounted for by two items: Firstly, revisions to accrued income estimates and secondly fair value adjustments to investment property estimates. In respect of the former, accrued income has been written down to recognise the significant fall in woodchip product prices in 2011 and the change in valuation basis from estimates of anticipated income at harvest to the best estimate of what is the current realisable value for standing timber.

The second element, being the downwards adjustment of \$139 million to the carrying value of investment properties, has arisen from the requirement to adjust the valuation basis from that applicable to an ongoing plantation operation to what is considered fair value for sale. In doing so, the determination of fair value has taken into account offers and indications received from the divestment process to date.

The non-recurring items arising from the decision to exit forestry has clearly had a substantial impact on the Company's balance sheet with Net Tangible Assets per share falling from \$1.50 to 55 cents.

I can reassure you however, that the decision to exit Forestry is a necessary course of action for Elders. The completion of the divestment will remove cash consuming and loss-making assets from Elders' portfolio, and will enable a further reduction in debt and interest.

In this respect, I note that reducing the Company's interest burden is the simplest and most pressing profit improvement task. In Elders' 2011 underlying profit results, interest absorbed approximately 80 cents out of every dollar of EBIT generated by the Company. Even reducing that figure to 50 cents in the dollar translates into a \$10 million increase in profit before tax.

Slide: Critical Question 3

I will now turn to the third question "when can shareholders expect to see substantive improvement in the financial performance and share price of their Company?"

It would be reckless of me or anyone to give an unqualified answer to this question, given the instability of markets and the vagaries of seasons.

However, I can comment on what your directors are seeing in the business and why we have confidence in the future of Elders.

I noted the improvement in underlying profit earlier in my address.

Slide: Strengthening Underlying Profit

Within that result, there are a number of noteworthy and encouraging outcomes. These include:

Slide: Strengthening Underlying Profit: Network Sales & EBIT

- the strong improvement from Elders' traditional network operations in Australia. Sales rose by 13% and EBIT generated by the Australian network rose by 92% compared with the previous year.

Slide: Strengthening Underlying Profit: Improved client relationships

- the qualitative and quantitative improvement in sales performance that has followed the implementation of the Go-to-Client program. The CEO will speak on this shortly but I can relay that it is having a difference in Elders' day-to-day client relationships and effectiveness

Slide: Strengthening Underlying Profit: Cost Reduction of \$23 million

- cost reductions of \$23 million or 6% across the Company

Slide: Strengthening Underlying Profit: Automotive performance

- a solid performance from automotive operations in maintaining its earnings despite the downturn in local vehicle production. Futuris is also winning new business contracts outside Australia that are underwriting its development as an Asia Pacific automotive supplier of significance. The Chief Executive will outline some of these when he addresses the meeting.

Slide: Strengthening Underlying Profit: Talented new people

- the attraction of talented and well-credentialed people who are keen to be part of Elders and its recovery

Slide: Strengthening Underlying Profit: Developing international livestock business

- and strengthening international markets and outlook for the Australian agriculture sector, particularly in long haul live export of dairy and breeding cattle.

We are expecting the momentum evident in Elders' underlying performance in 2011 to continue and be reflected in a much improved financial result in 2012. How, and when, this is reflected in the share price I am unable to predict.

However, I can report that Elders' sales and profit results for the first two months of the new financial year are in line with our expectations for improvement.

I can assure you that, in the opinion of the board, your Company is making the right decisions and taking the right action to deliver the results that the market expects and is seeking:

- Operational performance is being improved and costs reduced
- Unprofitable and cash consuming operations are being divested
- Capital is being redirected to more shareholder-value-enhancing applications such as debt reduction; and
- the board and management team are being renewed with addition of well-credentialed and proven new talent who are keen to join the Company and be part of the recovery.

It is our expectation that market confidence and valuation of Elders shares will improve progressively as the financial and competitive benefits of these actions accrue.

I will now address the subject of hybrid security distributions and ordinary dividends, as the Company's new financing agreements have removed the prohibition that existed since September 2009.

Under the new agreements, Elders is free to pay hybrid distributions and ordinary dividends, with the latter being subject to the satisfaction of a maximum leverage ratio of 3.5 times. Of course, the payment also remains subject to other customary requirements including consideration of the capital management needs of the Company and, in the case of ordinary dividends, due preference to hybrid distributions.

While the Company is keen to resume the payment of distributions and dividends as soon as appropriate, the board regards the reduction of debt levels to be Elder's foremost capital management priority. In this respect, the Company expects to make significant progress over the course of 2012 as the forestry divestment program is executed and the capital proceeds are applied to debt reduction.

Accordingly, given these circumstances, it is the Company's intention at this time that the resumption of hybrid distributions (and consequently ordinary dividends) will not be considered prior to the finalisation of the 2012 full year financial accounts.

Shortly I will invite the Chief Executive to brief you on the Company's operations and the strategy he and his team are applying to deliver improved returns for shareholders.

Slide : Australian Year of the Farmer 2012

But, before doing so, I note that 2012 is the Australian Year of the Farmer. Elders is proud to be a foundation sponsor of Australian Year of the Farmer 2012 which will highlight the considerable, but sometimes overlooked, contribution made by Australian primary producers to our national wealth.

Elders' shareholders have always taken an interest in the rural sector. I encourage you to look out for the Year of the Farmer events and help this initiative succeed in its objective of raising the awareness and understanding of rural Australia within the broader community.

In conclusion, the Board and management are extremely conscious of shareholders' disappointments and frustrations. While it is little consolation until the share price improves, I can assure you management has worked tirelessly this year to address the challenges (some, like the ban on live export trading, completely unexpected) and also to build the basis for our core ongoing businesses to be more profitable going forward.

An even stronger Board and management are going into 2012 absolutely committed to improving Elders' performance.

Chairman's Address

John Ballard

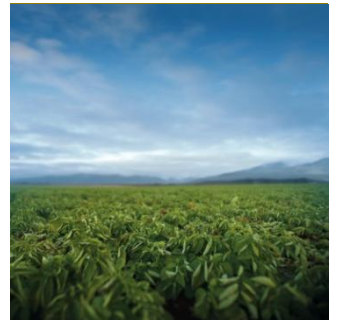
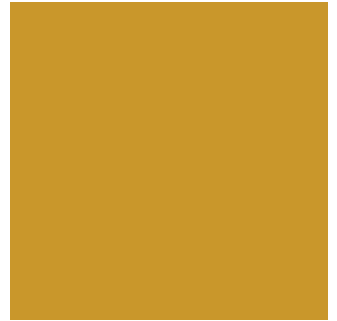


3 Critical questions

1. Why, and how, has the Company recorded such a large statutory loss?

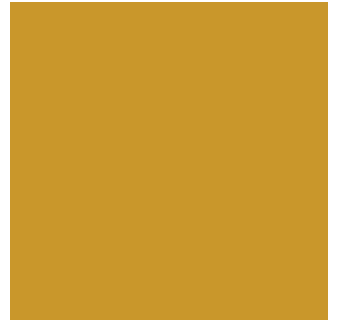
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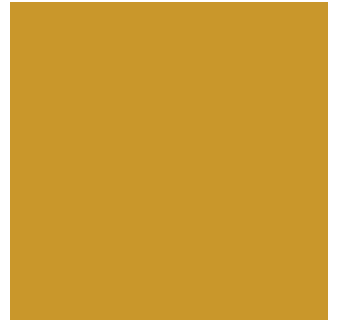
Critical Question 1

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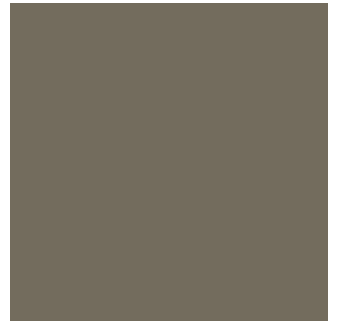
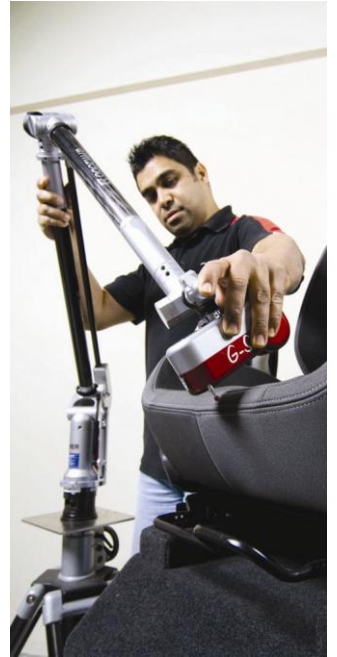
Critical Question 2

Why has Elders decided to withdraw from Forestry operations and why has this decision had the financial impact it has?



Critical Question 3

When can shareholders expect to see substantive improvement in financial results and more importantly, the share price?



Strengthening Underlying Profit

- Network Sales + 13% and EBIT + 92%
- Improved Client Relationships
- Cost reductions of \$23 million
- Automotive performance solid + winning new overseas business
- Talented new people
- Development of international livestock business

Australian Year of the Farmer 2012

Elders is proud to be a Foundation Sponsor

