



23 May 2011

Rural Services the highlight in improved FY11 First half financial results

- Statutory loss after tax of \$(14.6)m up from H1 10 loss of \$(165.9)m
- Non-recurring items of net \$(15.6)m after tax, including cyclone damage, HiFert writedown, Rural Bank share sale
- Underlying EBIT up 94% to \$20.0m from \$10.3m
- Underlying PBT of \$3.9m up 86% from \$2.1m
- Underlying NPAT of \$1.0m up from pcp loss of \$(2.4)m
- Continuing sales revenue up 6% to \$1086.4m
- Strong improvement in Rural Services' earnings and sales
- Debt and gearing reduced further, finance restructuring ongoing

Elders (ASX:ELD) has announced improved sales and earnings together with reduced debt in its 2011 interim profit announcement issued today.

The Company announced a statutory loss of \$(14.6) million after tax and minority interests for the six months to 31 March compared with a loss of \$(165.9) million in the previous corresponding period.

Both periods were affected significantly by non-recurring items, with the 2011 first half including previously advised impairments to recognise cyclone damage to forestry plantation, the write-off of the carrying value of Elders' shareholding in HiFert and dividends and gain on sale from the divested shareholding in Rural Bank.

Excluding non-recurring items, Elders recorded an underlying¹ profit after tax to shareholders of \$1.0 million compared with the loss of \$(2.4) million for the 2010 first half.

Underlying profit before tax of \$3.9 million is in line with guidance and 2010 first half comparative of \$2.1 million.

Underlying EBIT for the first half of \$20.0 million was 94% higher than the 2010 comparative of \$10.3 million. Underlying results for 2010 have been adjusted to recognise discontinued operations, the most significant of which was Elders' shareholding in Rural Bank, which was divested in December 2010.

Underlying borrowing costs increased from \$8.2 million to \$16.1 million. Interest on bank debt was in line with the previous corresponding period but increases in other borrowing costs and an unfavourable foreign exchange and fair value movement resulted in the higher total borrowing costs. In order to

¹ Detail on non-recurring items and a reconciliation of Statutory and Underlying Profit is provided in the Discussion and Analysis of 2011 First Half Results lodged with the ASX today.



address upcoming maturities and consistent with normal business practice, the Company is actively and constructively engaged in discussions with financiers to renew and extend facilities.

The growth in EBIT generation was sourced from Rural Services, which increased its underlying EBIT contribution from \$1.6 million to \$14.1 million through strong improvement in network performance.

Contributions from the Company's Forestry and Automotive operations were lower than in the previous corresponding period. Elders Forestry recorded underlying EBIT of \$4.0 million down from \$7.4 million, with the decline being due to the flow on from the collapse of MIS sales in previous years and lower third party wood sales. Futuris Automotive contributed underlying EBIT of \$4.7 million down from \$8.6 million due to the impact of reduced vehicle build volumes in Australia and overseas.

Elders Managing Director Malcolm Jackman said the performance of Elders' Rural Services operations "is clearly the highlight of the results and is even more noteworthy once the impact of the extreme weather events during the period is considered.

"Rural Services lifted its underlying EBIT by \$12.5 million notwithstanding a \$6.6 million loss from the Elders Toepfer Grain (ETG) joint venture, which was affected by historically unprecedented crop quality downgrades. Livestock agency and fertiliser sales were also affected unfavourably by the rainfall and flooding during the period.

"However, a much better sales performance in Farm Supplies, especially Ag Chem, higher prices and the costs savings delivered have all contributed to the turnaround in Rural Services financial results in Australia and New Zealand" he said.

"Lifting our sales performance and reducing cost-to-earn have been the key focal points throughout the company and the results are evident. Sales per employee are up 13% and our cost to earn is 13% lower.

"Our SalesPlus⁺ initiative has seen nearly 1,300 people complete the first stage of training during the period. While that brought some disruption to operations, our management and reporting systems show that the business is responding in its level of focus and activity on sales performance" Malcolm Jackman said.

Elders' Australian network operations lifted sales by 10% and doubled its earnings contribution compared with the 2010 first half. New Zealand network operations lifted its contribution from the previous corresponding period's loss of \$(0.9)m to a profit of \$0.9m.

The gains from network operations were partially offset by lower income from Trading operations and equity accounted income due to the ETG loss.

The Company strengthened its balance sheet and financial position, reducing debt and agreeing terms for a further restructuring of its debt facilities with its financiers. The restructuring saw Elders substantially reduce its long term debt, extend terms on its revolving debt facility and agree a less restrictive finance package. Gross debt at 31 March of \$386.8 million was \$110.8 million or 22% lower than at the beginning of the period. Gearing was reduced from 43% to 37%.

Malcolm Jackman said that the outlook for the closing six months of the year for the Company's various operations was mixed.



"While we are expecting our customary increase in second half sales and earnings, our expectations are being moderated as headwinds increase in a number of business areas.

"Rural Services operations are clearly on track, notwithstanding the disruptions of the first half.

"While last year's experience showed that results can vary significantly month to month, the seasonal conditions so far have most regions in their most promising condition for many years. Western Australia is the exception after the extended hot dry conditions that have prevailed there, but we hope the recent rains prove to be the start of a good season" he said.

Sales and demand levels for farm supplies remain healthy, albeit competitive" Malcolm Jackman said.

"Livestock supply volumes are continuing to tighten, impacting both the agency and trading operations".

"Automotive operations now face stronger headwinds than anticipated with forecast motor vehicle build levels in Australia having been revised downward substantially in recent weeks, and the rising A\$ level posing further threats. The management team within Futuris is working diligently to minimise the impact on employment and returns but, on the schedules advised, we have been forced to lower earnings expectations from the automotive business to a full year underlying result that approximates that achieved in 2010" said Malcolm Jackman.

Forestry operations are also facing softer than anticipated woodfibre demand volumes following the Japanese tsunami and the added uncertainty arising from high exchange rates and the yet to be concluded annual woodchip price negotiations with Japanese buyers. The outcome of these price negotiations, which is expected to be finalised in the next few weeks, has the potential to materially impact underlying earnings.

Given the variables involved, the forecasting of FY11 earnings at this juncture is necessarily general and highly qualified in respect of key variables such as the peak sales season and Forestry outcomes.

However, given the risks to earnings that are continuing to emerge, Elders has lowered its expectations for FY11 underlying profit after tax to a result that approximates the low end of the current market range of between \$7.5 million and \$24.5 million, exclusive of any impact arising from woodchip price negotiations. This compares to the previous guidance of a result that fell within the previous market range of \$15 million and \$30 million after tax and the FY2010 comparative underlying net loss after tax of \$(10.0) million.

Completion of the third quarter sales season will enable the current year financial outlook to be determined with greater certainty. Accordingly, Elders expects to provide a Trading Update on its FY11 outlook in July, or earlier, should circumstances permit.



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Conference Call:

Details for the conference call and webcast slide presentation are as follows:

Webcast slide presentation

9:00 am EST Monday 23 May

[> View presentation webcast](#)

1800 428 662

Quote conference ID: 6237 0801

International numbers are available at:

<http://investor.elders.com.au/interim-results>