Monday, 14 May 2018

2018 Half-Year Results Investor Presentation

Attached is the investor presentation in connection with the financial results for the 6 month period ended 31 March 2018.

Elders CEO, Mark Allison, and CFO, Richard Davey, will deliver this presentation by webcast and simultaneous teleconference at 10.00am (AEST) today.

As advised to the ASX on Thursday 10 May 2018, you can register to view and listen to the live commentary of the presentation. For details, refer to that announcement.

Peter Hastings
Company Secretary



Elders Limited

2018 Half Year Results Presentation

14 May 2018

Disclaimer and important information

Forward looking statements

This presentation is prepared for informational purposes only. It contains forward looking statements that are subject to risk factors associated with the agriculture industry of which, many are beyond the control of Elders. Elders' future financial results will be highly dependent on the outlook and prospect of the Australian farm sector, and the values and volume growth in internationally traded livestock and fibre. Financial performance for the operations is heavily reliant on, but not limited to, the following factors: weather and rainfall conditions; commodity prices and international trade relations. Whilst every endeavour has been made to ensure the reasonableness of forward looking statements contained in this presentation, they do not constitute a representation and no reliance should be placed on those statements.

Non-IFRS information

This presentation refers to and discusses underlying profit to enable analysis of like-for-like performance between periods, excluding the impact of discontinued operations or events which are not related to ongoing operating performance. Underlying profit measures reported by the Company have been calculated in accordance with the FINSIA/AICD principles for the reporting of underlying profit. Underlying profit is non-IFRS financial information and has not been subject to review by the external auditors, but is derived from audited accounts by removing the impact of discontinued operations and items not considered to be related to ongoing operating performance.

FY18 Half Year in Review

Strong performance for the half

- Lost time injuries decreased to 2 from 5, LTIFR down from 1.7 to 0.7
- Underlying net profit after tax of $39.7m, up $4.5m
- Underlying EBITDA of $47.8m, up $4.5m
- Underlying EBIT of $45.7m, up $4.2m
- Operating cash inflow of $26.1m for the half, up from a cash outflow of $5.3m
- Underlying return on capital of 28.2%, down from 31.8%
- Underlying earnings per share 34.3 cents, up 3.3 cents
- Fully Franked interim dividend of 9 cents per share declared

Progress on FY18 Priorities

Delivering our promises to stakeholders

Safety Performance

- Lost time injuries reduced to 2 from 5, target is zero LTIs
- LTI frequency rate at 0.7
- 96% decrease in days lost for 1H FY18
- Risk based decision making training developed and implemented
- Continued emphasis on employee and community safety health and wellbeing

Operational Performance

- $47.8m underlying EBITDA, up $4.5m on 1H last year
- $45.7m underlying EBIT, up $4.2m on last year
- Underlying ROC at 28.2%, down from 31.8% at March 2017
- Leverage ratio improved to 1.8 from 1.9 last year
- Interest cover ratio increased from 8.4 to 11.0

Key Relationships

- Continued to work with retail key suppliers, including improved position in WA fertiliser market
- Expanded digital client offerings
- Formalised regional and rural support programs with multiple charitable partnerships through launch of "Elders Give It"
- Continued to engage with key agricultural research bodies
- Formal engagement with all Rural Research Centres and government and university institutions to focus and enhance our agricultural research initiatives

Efficiency and Growth

- Continued to drive branch efficiency improvement program
- Acquisition of Titan Ag to enhance retail capability and increase margins
- Agency footprint expansion through acquisition of Kerr & Co
- Investment in Clear Grain Exchange (CGX) to broaden earnings base and model sustainability
- Drive organic growth through improving sales force performance and attracting high performers
- Structured review process of capital and cost initiatives
- Divestment of Indonesian feedlot and abattoir operations [1]

[1] *Indonesian business update provided in Appendix 4*

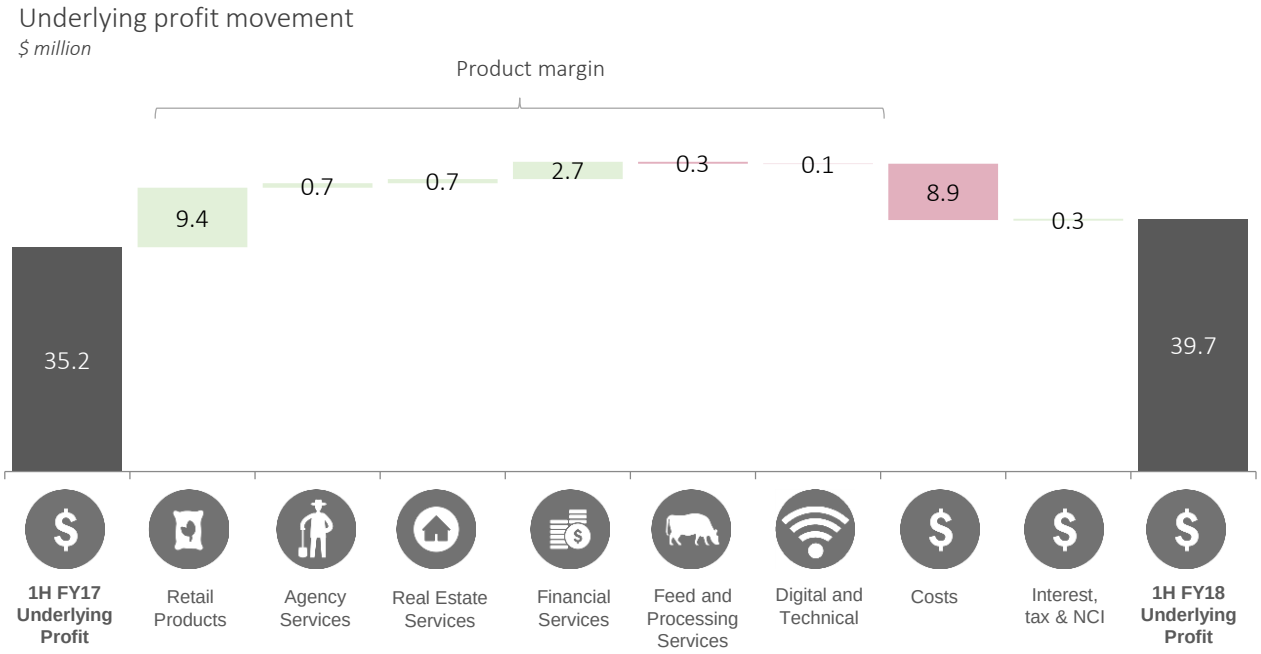
Half Year Financial Performance

$ million	1H FY18	Change $m	Change %	1H FY17
Sales revenue	749.7	15.2	2%	734.5
Underlying EBITDA	47.8	4.5	10%	43.3
Underlying EBIT	45.7	4.2	10%	41.5
Underlying profit after tax	39.7	4.5	13%	35.2
Statutory profit after tax	41.4	3.1	8%	38.3
Net debt	91.9	78.5	46%	170.4
Operating cash flow	26.1	31.4	592%	(5.3)
Average capital (year to date)[1]	289.4	12.3	4%	277.1
Underlying return on capital (%)	28.2%	3.6%	11%	31.8%
Underlying earnings per share (cents)	34.3	3.3	11%	31.0

[1] *Excluding brand name*

Performance by Product

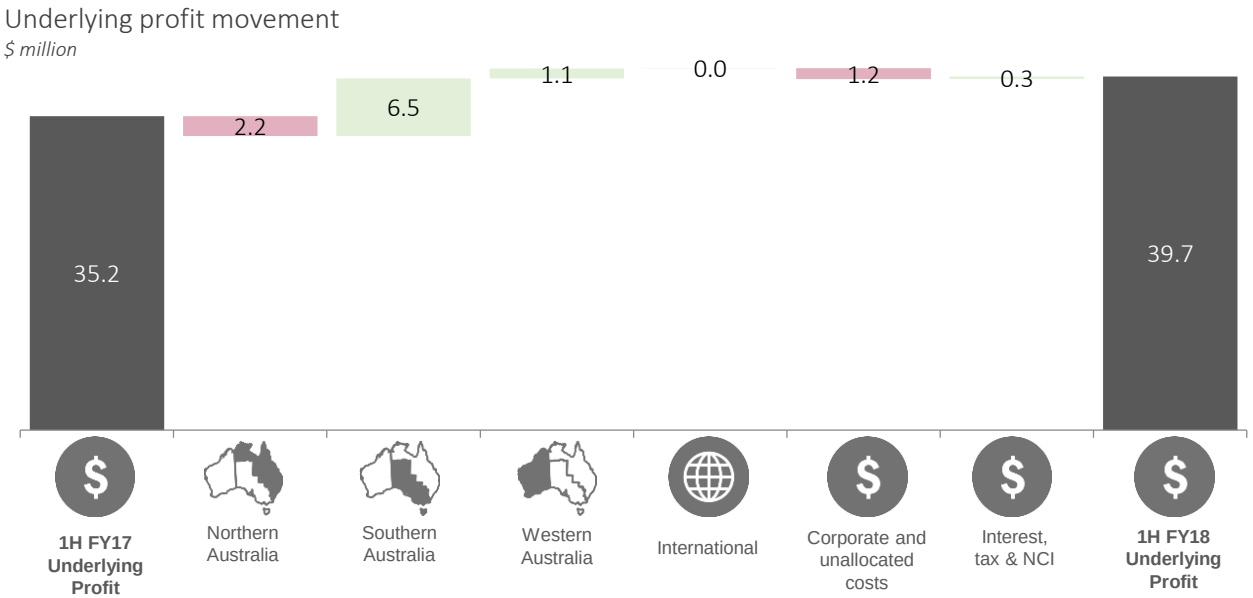
Continued strong performance in Retail



- Retail upside driven by a combination of organic growth across southern Australia and acquisition growth in horticulture
- Agency uplift due to strong wool performance and additional sheep volumes from acquisitions, offset by declining cattle prices and volumes
- Real Estate increase due to acquisitions, offset by decline in farm land property turnover
- Financial Services boosted by acquisitions and increased productivity across the portfolio
- Feed and Processing Services downside attributable to higher input costs at the Killara feedlot
- Costs increased to drive Eight Point Plan initiatives, including acquisitions and organic footprint growth
- Lower tax due to normalisation of performance in Australian partnerships

Performance by Geography

Geographic diversification with Southern Australia outperformance offsetting Northern Australia



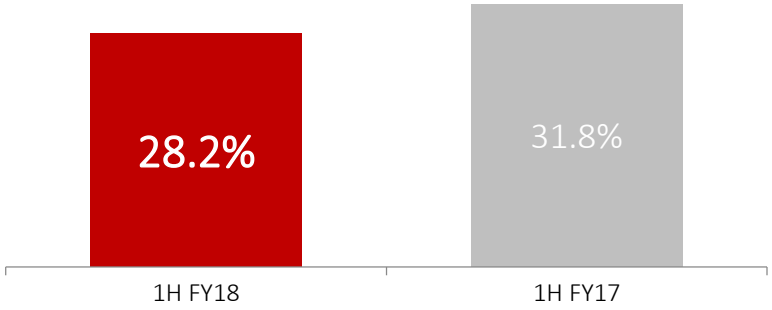
- Unfavourable conditions in Northern Australia impacting Livestock and Real Estate margin, offset by the Ace Ohlsson acquisition
- Southern Australia outperformed last year across most products, especially Retail, and additional earnings through bolt-on acquisition in western Victoria
- Western Australia improvement driven by Retail, offset by easing Livestock and Real Estate earnings
- High input costs continue to impact the International margins
- Corporate and unallocated costs increased due to investment in Eight Point Plan initiatives
- Lower tax due to normalisation of performance in Australian partnerships

Capital Employed

Return on capital remains above 20% target

- Underlying return on capital at March 2018 was 28.2%, which is above the targeted 20% benchmark, but lower compared to 31.8% at March 2017:
  - Continued investment in aligned financial services providers, which deliver a lower risk earnings profile
  - Continued strong Agency earnings particularly Livestock, which require minimal working capital
  - Stable Retail earnings and capital mix
- Lower working capital balances resulting from:
  - Stable working capital utilisation in Retail notwithstanding higher activity and acquisition related increases
  - Variability of Livestock activity leading up to balance date
  - Lower Live Export balances post exit

Underlying Return on Capital [1]



Capital

$ million	1H FY18	1H FY17	Change
Retail Products	138.1	134.9	3.2
Agency Services	20.8	62.1	41.3
Real Estate	0.8	2.2	1.4
Financial Services	9.5	5.6	3.9
Feed & Processing Services	48.3	54.8	6.5
Live Export Services	-	8.1	8.1
Other	(40.5)	(36.0)	4.5
Working capital (balance date)	177.1	231.6	54.5
Other capital[2]	*71.4*	*47.6*	*23.8*
Total capital (balance date)[2]	248.5	279.2	30.7
Average total capital[2]	*289.4*	*277.1*	*12.3*

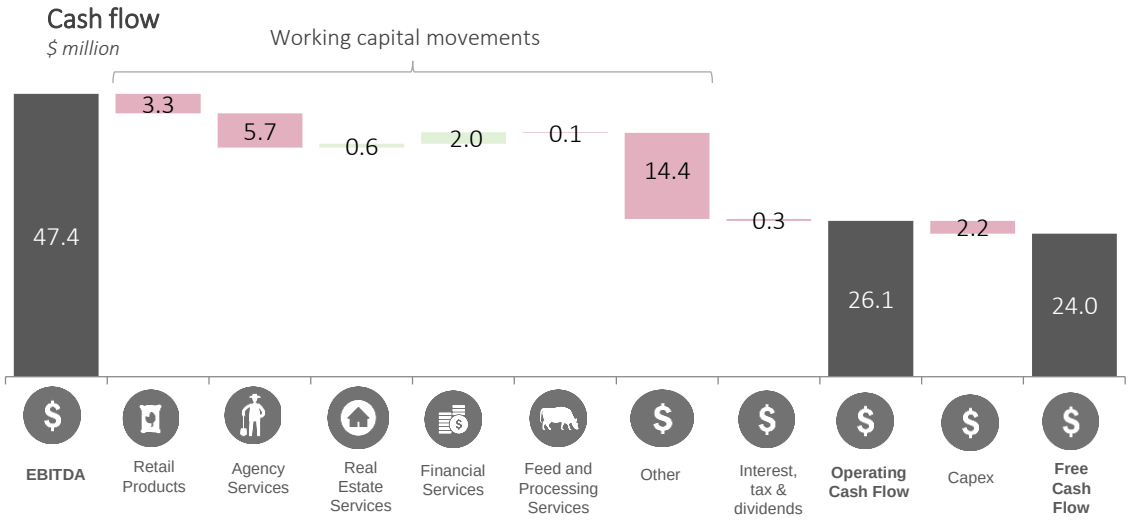
[1] Return on capital = Underlying EBIT / (working capital + investments + property, plant and equipment + intangibles (excluding brand name) – provisions (excluding forestry related))
[2] Excludes brand name

Operating Cash Flow

Strong profitability and Easter impact

Operating cash flow of $26.1 million reflected:

- Strong EBITDA cash conversion
- Variability of Livestock activity leading up to balance date
- Other outflows represents long and short term incentive payments associated with the financial year 2017 outperformance

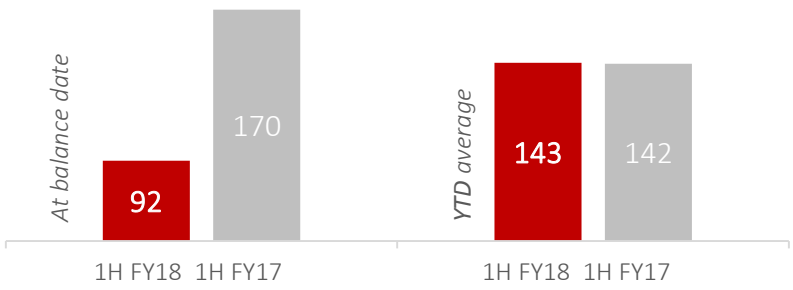


$ million	Retail Products	Agency Services	Real Estate	Financial Services	Feed & Process	Other	Total
EBITDA adjusted	24.6	21.4	6.6	7.0	2.6	(14.8)	**47.4**
Movements in assets and liabilities	(3.3)	(5.7)	0.6	2.0	(0.1)	(14.4)	**(20.9)**
Interest, tax and dividends						(0.3)	**(0.3)**
Operating cash flow	21.2	15.6	7.2	9.0	2.5	(29.5)	**26.1**

Net Debt

Continued improvement across all key ratios

Net Debt



Key Ratios	1H FY18	1H FY17	Change
Leverage (average net debt to EBITDA)	1.8	1.9	0.1
Interest cover (EBITDA to net interest)	11.0	8.4	2.6
Gearing (average net debt to closing equity)	50%	79%	30%

- Average net debt over the two periods were consistent with:
  - Strong EBITDA cash conversion
  - Offset by:
    - Investment outflows associated with bolt-on acquisitions
    - Distribution of dividends to shareholders
- Net debt at balance date lower than average, reflecting variability of Livestock activity leading up to balance date
- Improvement was achieved in all key ratios

FY18 Outlook

Easing cattle prices expected, offset by footprint expansion and acquisition growth

Retail Products

- Winter cropping conditions are expected to be average with limited rainfall during April and May across most of Australia. This is anticipated to inhibit grower demand for cropping inputs in the second half.
- Full year impact of acquisitions completed last year will deliver further benefits during FY18
- During April 2018, Elders announced the acquisition of Titan Ag, an agricultural chemical supplier, which is expected to increase Retail earnings in the second half

Agency Services

- Cattle prices to continue easing in the second half with limited rainfall across many cattle regions during April and May inhibiting herd rebuild
- Sheep prices are expected to remain steady supported by international demand
- Wool is anticipated to maintain growth with a solid pipeline of wool in store, continued strong wool prices and slow supply growth

Real Estate Services

- Supply of farmland property will continue to be subdued in line with the decline in livestock prices

Financial Services

- Continued momentum and growth is likely from the banking and livestock funding products

Feed and Processing

- Continued dry conditions will allow feedlot utilisation to remain at high levels, but will also increase feed costs at the Killara feedlot

Costs and Capital

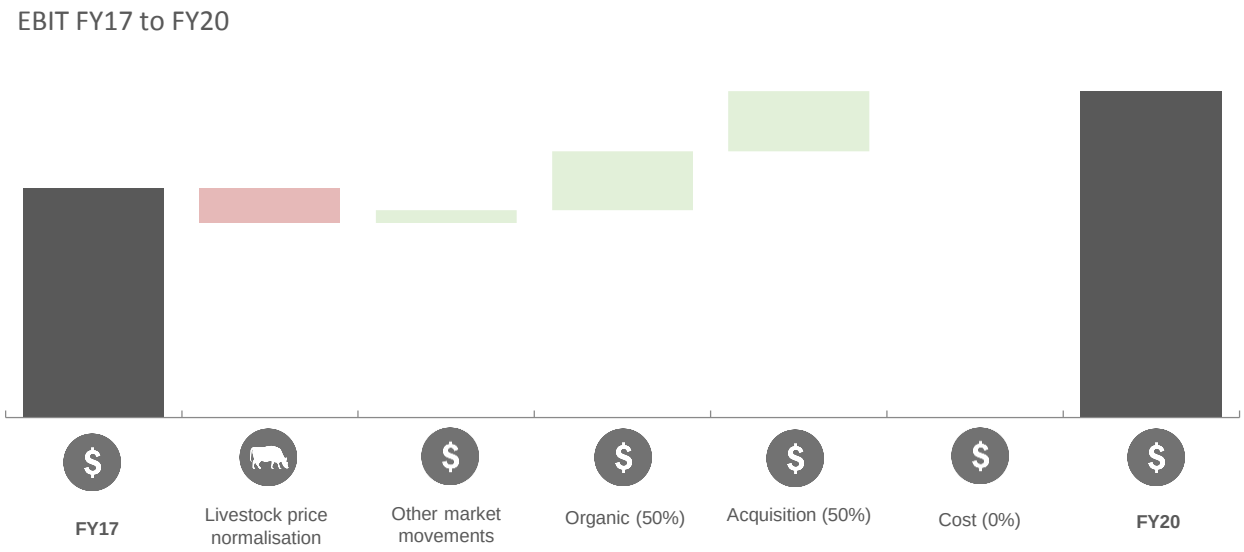
- Costs are expected to continue to increase in the second half in line with footprint growth and continued Eight Point Plan investment
- The contracted divestment of the Indonesian feedlot and abbatoir assets will allow $13 million of capital to be deployed elsewhere in the business

Strategic Priorities to 2020



Eight Point Plan: 3 years to FY20 goal

Targeting 5 – 10% p.a. quality growth through the cycles



- Livestock prices expected to ease post FY17
- Market share gains achieved in FY17 to offset livestock price movement
- EBIT improvement in the period to FY20 is anticipated to be derived from:
  - organic and acquisition growth, and
  - continued focus on controlling base costs to offset inflationary increases.

Balanced growth plan to FY20

Organic 50%

- Drive continuous business improvement
- Capture growth opportunities across our product and services portfolio
- Explore opportunities to expand our offering and leverage the Elders brand into new markets to capture new clients and customers
- Continuously drive and resource values based leadership through the organisation
- Invest in the development of our leaders and people
- Build deeper understanding of our customers to deliver profitable value add products and services

Acquisition 50%

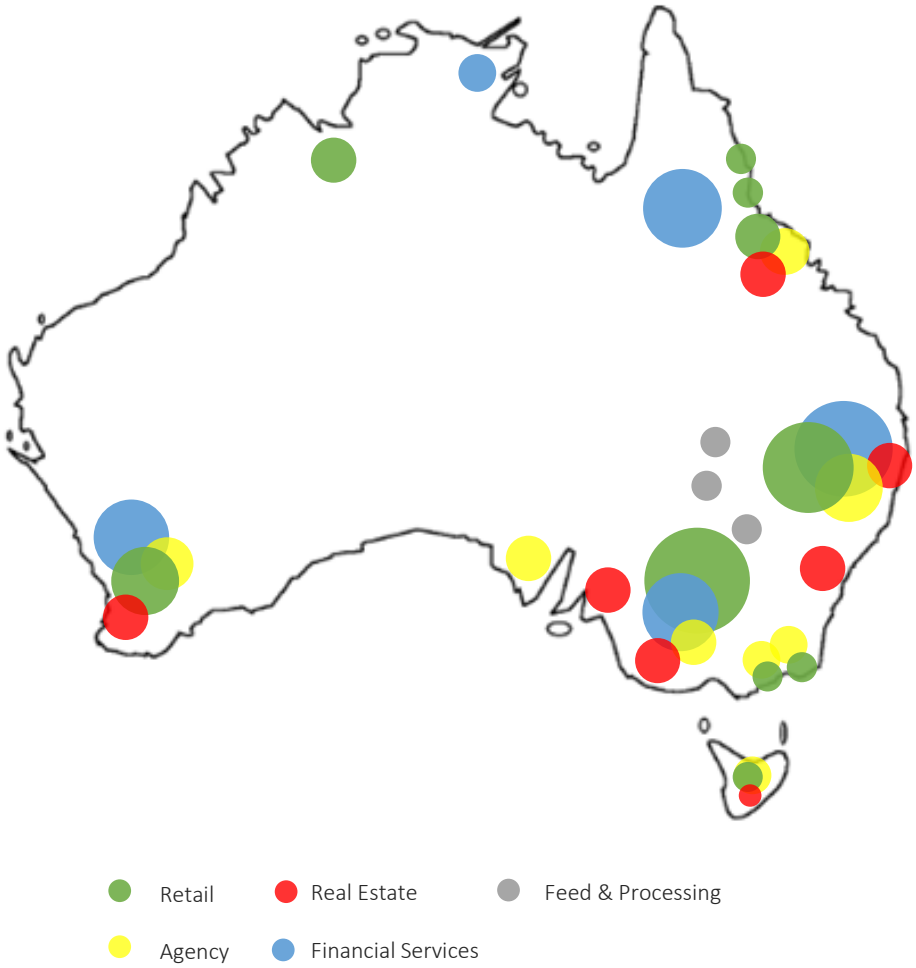
- Continue to evaluate strategically aligned opportunities to expand our business
- Only transactions which are EPS accretive will be considered
- Identify innovative solutions to target geographical and strategic gaps
- Maintain a disciplined approach to ensure acquisitions meet required financial hurdles
- Reallocate capital from non-performing assets if financial and quality targets are not met

Maintain Cost

- Invest in resourcing to identify, integrate and support both organic and acquisition growth opportunities
- Derive efficiency gains through active cost management to offset inflationary increases
- Reallocate and reduce unproductive costs
- Develop and implement improved processes and approaches
- Maintain robust and conservative financial discipline

Strategic Gaps

Geared for the next wave of growth, including 20 new branches by 2020



Key gaps in product and service areas to be filled through organic growth and acquisition, with 20 new branches by 2020

Retail
- Increased market share in high value cropping areas
- Increased presence in horticulture, viticulture, and irrigated farming
- Fertiliser growth in WA through CSBP
- Increase fee for service agronomic advisory

Agency
- Increased focus on livestock production advice and dairy
- Targeted footprint and agent growth in livestock services
- Expand grain network accumulation

Real Estate
- Increase company owned presence in major regional centres

Financial Services
- Increase productivity and coverage of agri-finance staff
- Growth in insurance gross written premiums
- Growth in StockCo livestock product

Feed and Processing
- Controlled growth in Killara feedlot throughput







APPENDIX

Appendix

- Appendix 1: 1H FY18 results additional information
- Appendix 2: Business Model
- Appendix 3: Market Forces
- Appendix 4: Indonesian Divestment







1H FY18 RESULTS ADDITIONAL INFORMATION

Elders

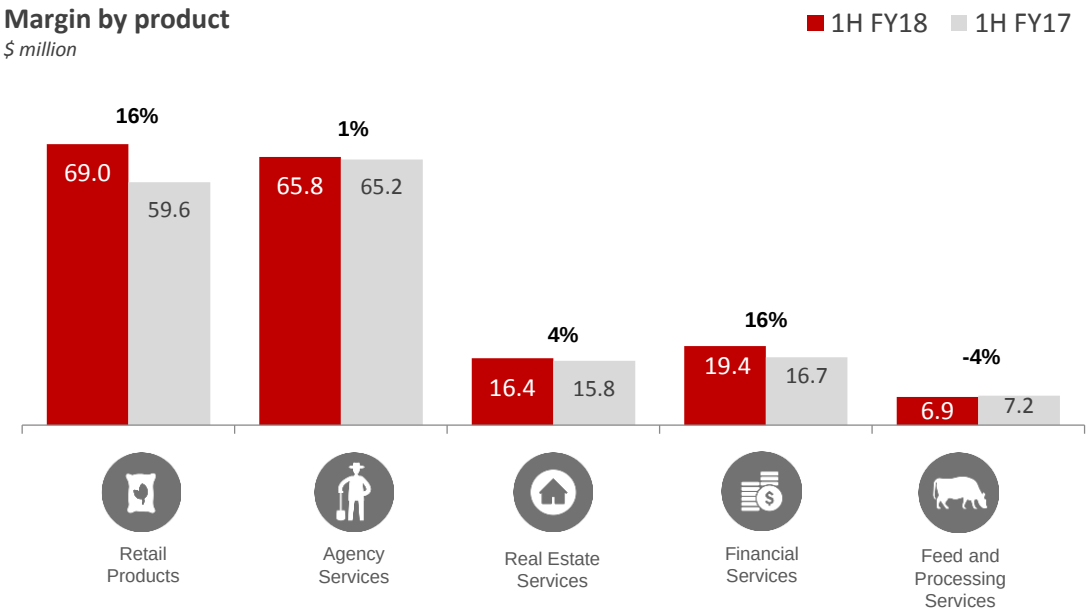
Business Segmentation

$ million	Northern Australia	Southern Australia	Western Australia	Int'l Geographies	Digital & Technical	1H FY18 Margin	Average Working Capital
Retail Products	Farm Supplies and Fertiliser					**69.0**	**166.8**
Agency Services	Livestock, Wool, and Grain					**65.8**	**30.4**
Real Estate Services	Farmland, Residential, Property Management, Franchise					**16.4**	**0.6**
Financial Services	Agri Finance, Insurance and Financial Planning					**19.4**	**12.0**
Feed & Processing Services	Killara Feedlot			Indonesia China		**6.9**	**51.9**
Digital & Technical					Elders Weather	**0.3**	**-**
1H FY18 Margin	**64.0**	**81.9**	**30.7**	**0.9**	**0.3**	**177.8**	

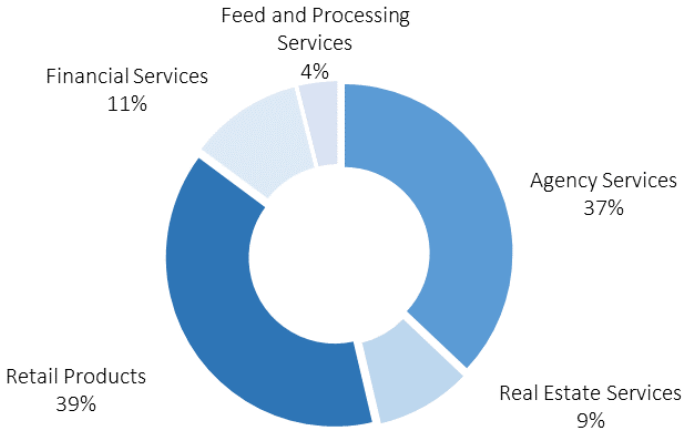
Business Performance by Product

Margin by product

$ million



Margin generated by product

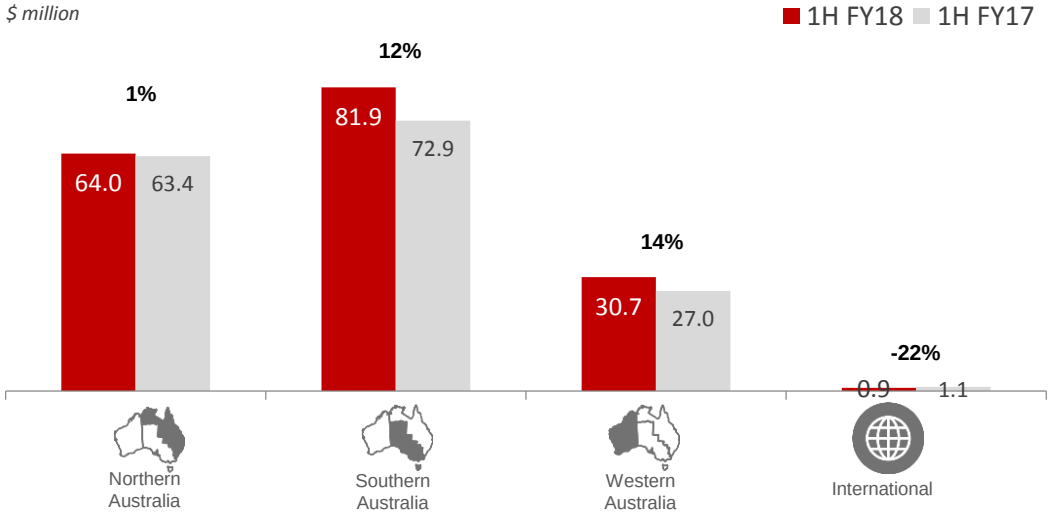


- **Retail:** Upside driven by a combination of organic growth across southern Australia and acquisition growth in horticulture
- **Agency:** Strong wool performance and additional sheep volumes from acquisitions, offset by declining cattle prices and volumes
- **Real Estate:** Increase due to acquisitions, offset by decline in farm land property turnover
- **Financial Services:** Boosted by acquisitions and increased productivity across the portfolio
- **Feed and Processing:** Higher input costs at the Killara feedlot

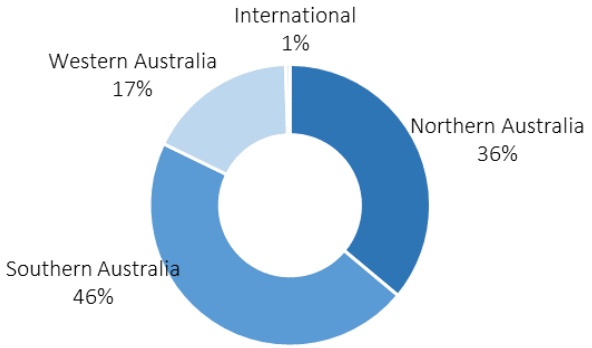
Business Performance by Geography

Margin by geography

$ million



Margin generated by geography



- **Northern Australia:** Unfavourable conditions impacting Livestock and Real Estate margin, offset by the Ace Ohlsson acquisition
- **Southern Australia:** Outperformed last year across most products, especially Retail, and additional earnings through bolt-on acquisition in western Victoria
- **Western Australia:** Improvement driven by Retail, offset by easing Livestock and Real Estate earnings
- **International:** High input costs continue to impact the International margins







BUSINESS MODEL

Elders

Elders Limited

Australia's largest listed rural services and products supplier, operating since 1839

- Australia's largest listed full service rural services and products supplier
- Integral part of Australia's agribusiness landscape since 1839
- >450 points of presence strategically located throughout agricultural production areas
- Market capitalisation A$863m [1]
- FY17 sales revenue A$1,582m
- FY17 underlying EBITDA A$74.8m
- FY17 underlying EBIT A$71.0m
- Target long term return on capital 20%

Mark Allison

Chief Executive Officer and Managing Director



- Chief Executive Officer and Managing Director of Elders since May 2014
- 35 years experience in the agribusiness sector

Experience includes:

- Executive Director – GrainGrowers Limited
- MD & CEO – FarmOz Pty Ltd (Adama Australia/NZ)
- MD & CEO – Wesfarmers Landmark Limited
- MD & CEO – Wesfarmers CSBP Limited
- MD & CEO – CropCare Australasia Pty Ltd
- GM – Incitec Fertilisers (Incitec Limited)
- Chair of APVMA, CroplIfe, Agsafe, Agribusiness Australia and Elders Ltd

Richard Davey

Chief Financial Officer



- Chief Financial Officer of Elders since January 2013
- 16 years experience at Elders
- Previously manager at PricewaterhouseCoopers

[1] *as at 31 March 2018*

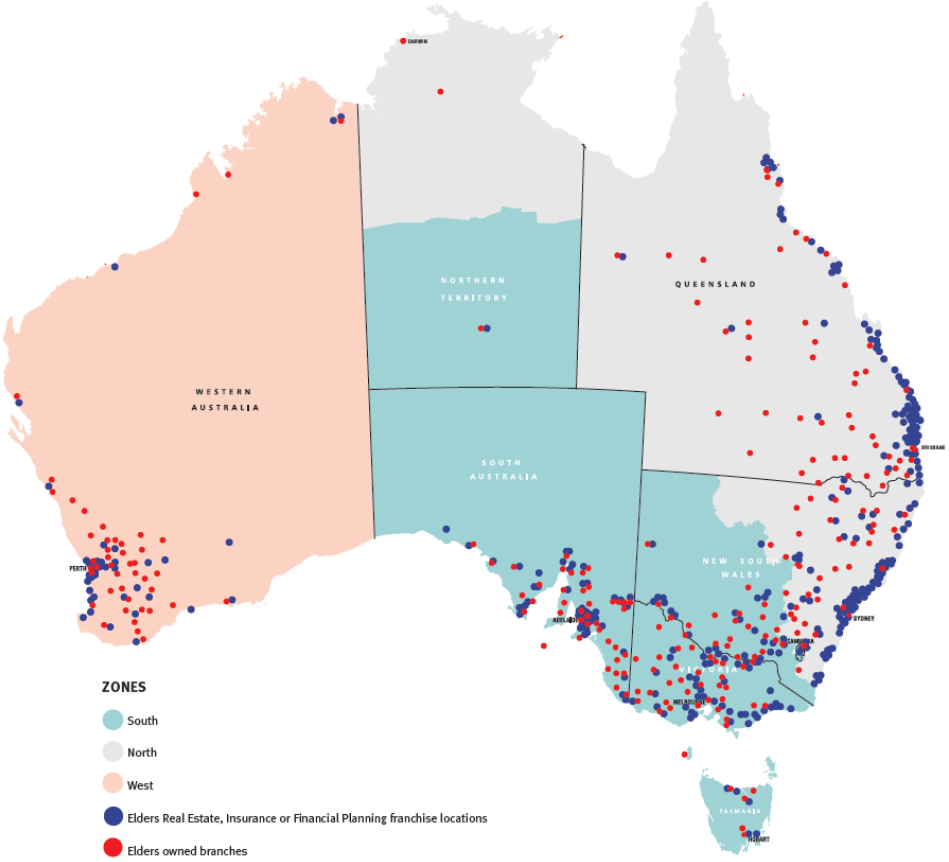
Business Model

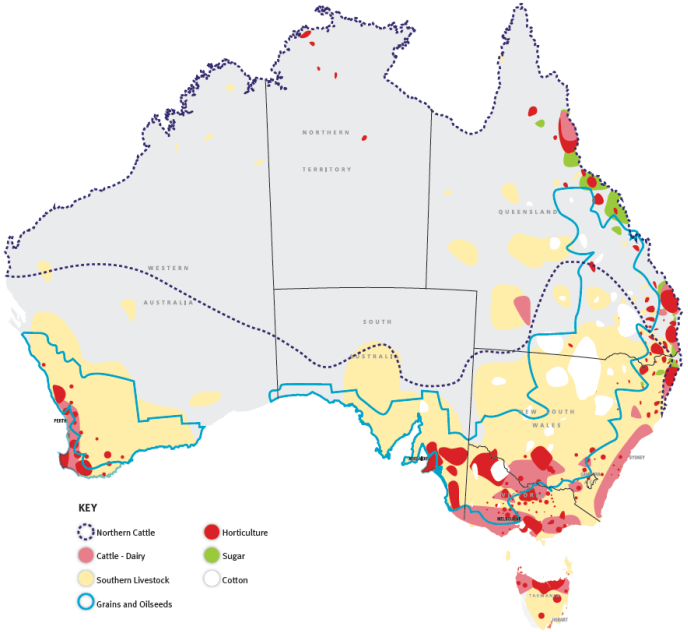
Retail products	Agency services	Real estate services	Financial services	Digital and technical services	Feed and processing services
					
Farm supplies	Livestock	Farmland	Agri-finance	Fees for service	Killara Feedlot
Fertiliser	Wool	Residential	Insurance	Auctions plus (50%)	Elders Indonesia[2]
	Grain	Property management		Elders Weather	Elders China
		Franchise			
$1.1bn retail sales	9.0m head sheep	$1bn farmland sales	$2.8bn loan book[1]	Auctions plus: 731k head sheep; 104k head cattle	Killara: 52k head
718k tonnes fertiliser	1.5m head cattle	$670m residential sales	$1.6bn deposit book[1]		Indonesia[2]: 18k head
	349k wool bales	8,291 properties under management	$78m StockCo book[1]	Elders weather: 182m hits	China: $13.0m sales
	0.2m grain tonnes	130 franchises	$654m gross written premium[1]		
FY17 gross margin contribution: 40%	36%	9%	10%	n/a	5%

[1] Principal positions are held by Rural Bank, StockCo and Elders insurance (QBE subsidiary respectively).
[2] Announcement of Indonesian divestment in April 2018.

Based on FY17 full year statistics

Points of Presence





- Over 450 points of presence in Australia and overseas including full service branches, real estate and insurance franchises
- Key produce areas covered through our footprint
- Targeted expansion of footprint through recruitment and acquisition

Achievements FY14 to FY17

Excellent platform and processes established for further profitable growth

Organic

- ✓ Market share gained across retail, livestock and wool markets
- ✓ Branch benchmarking and improvement plan
- ✓ Implemented consignment stock and agency programs with key retail suppliers
- ✓ Improved retail supplier trading agreements – increased deferred terms and performance based target rebates
- ✓ Continued focus on retail margin improvement through price book management
- ✓ Recruited high performing retail and livestock staff in Tasmania and New South Wales regions
- ✓ Optimised Killara efficiency through two year capital improvement program

Acquisition

- ✓ Established internal business development function to evaluate opportunities to grow our business through acquisition
- ✓ Strategic acquisition of specialist horticultural operation to improve capability
- ✓ Agency footprint expansion into Southern New South Wales
- ✓ Investment in aligned financial service product providers (Insurance and Stockco)
- ✓ Real Estate expansion through strategic acquisition in Bunbury, Toowoomba, and Riverland regions
- ✓ Strong acquisition pipeline established

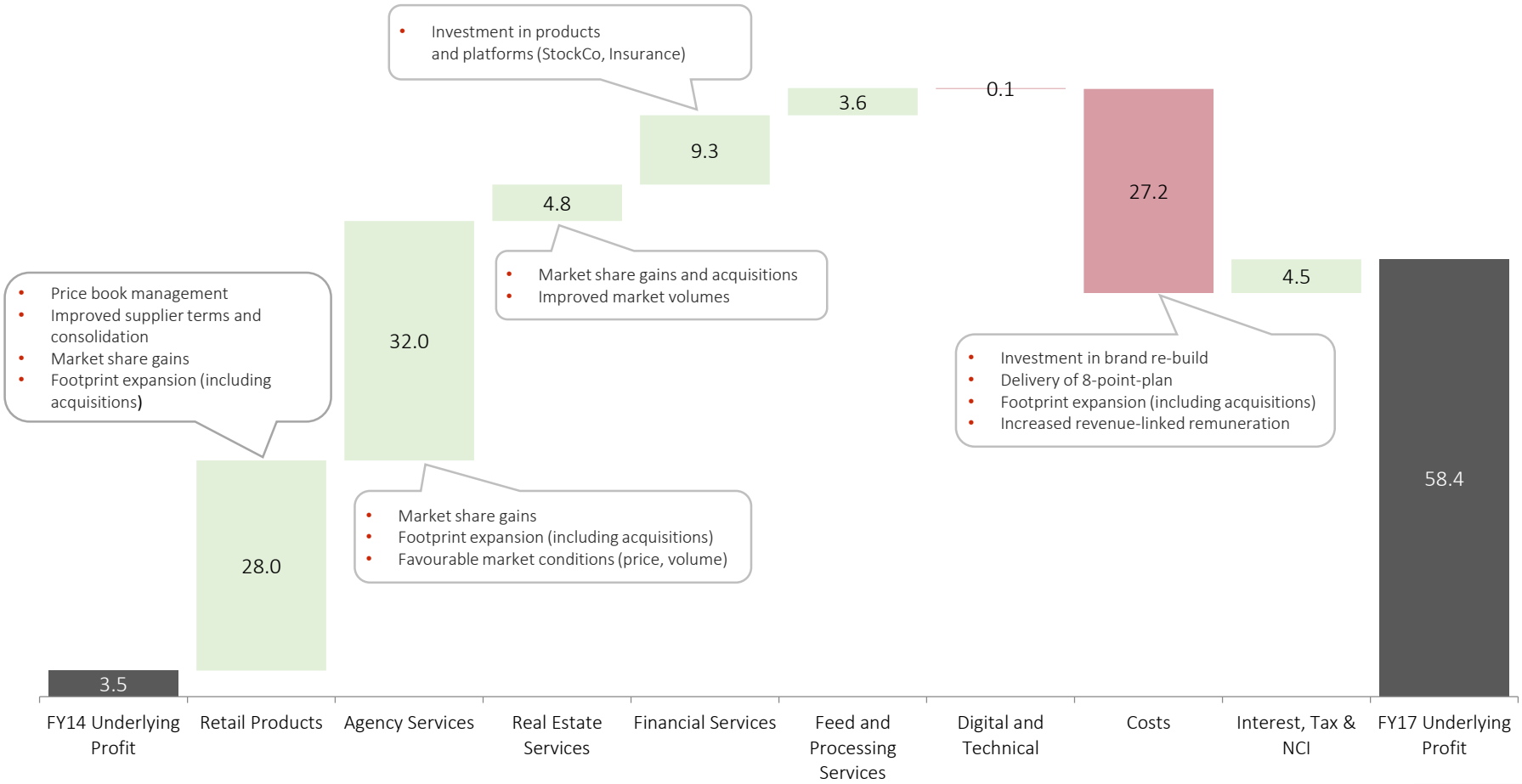
Cost

- ✓ Prioritised growth pipeline with appropriate support mechanisms in place to support implementation and success
- ✓ Continued efficiency gains through active cost management and improved processes and approaches
- ✓ Reallocation and reduction of unproductive costs
- ✓ Established mutually beneficial variable livestock and wool remuneration models
- ✓ Investment in the development of our leaders and people
- ✓ Exit and reallocation of cost and capital from underperforming Live Export shipping business

Delivering improvements across the business

Underlying profit movement FY14 to FY17

$ million



Business Division

Retail products

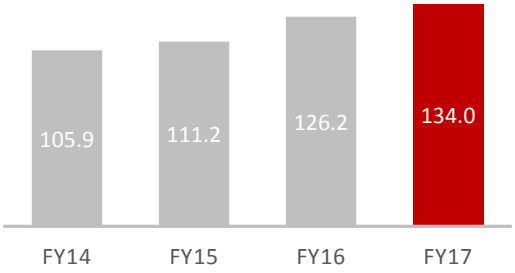
Business description

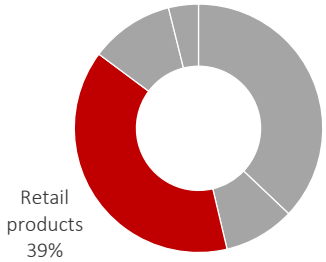
- Elders is one of Australia's leading suppliers of rural farm inputs including seeds, fertilisers, agricultural chemicals, animal health products and general rural merchandise. We also provide professional production and cropping advice with over 144 agronomists nationwide

Strategic focus

1. Capital light, return on capital driven business model
   - Improve product ranging within key animal health and agricultural chemicals categories
   - Increased focus on specialised high value cropping market, including in selected geographical gaps
2. Product focus
   - Introduce Elders home branded products
   - Build on customer loyalty through increased provision of agronomy services
3. People
   - Identify, select and recruit proven localised management to establish Elders' presence in selected geographical gap areas
   - Launch Centre of Excellence

Retail margin ($m)

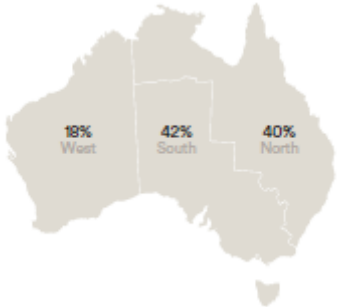




Margin by product



Margin split by geography



Business Division

Agency services

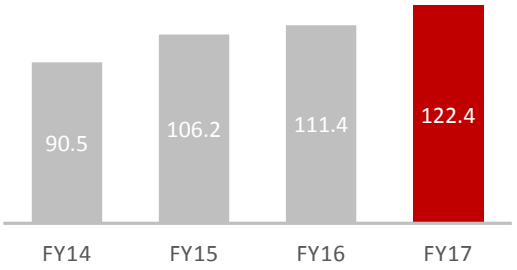
Business description

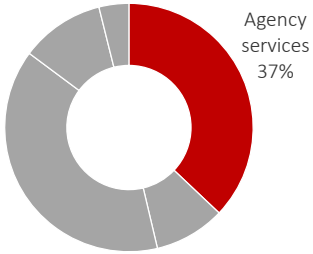
- Elders provides a range of marketing options for livestock, wool, and grain
  - **Livestock**: our livestock agents and employees operate across Australia conducting on-farm sales to third parties, regular physical and online public livestock auctions and direct sales to Elders-owned and third-party feedlots and livestock exporters
  - **Wool**: we are one of the largest wool agents for the sale of Australian greasy wool and operates a brokering service for wool growers. Our team of dedicated wool specialists assists clients with wool marketing, in-shed wool preparation, ram selection and sheep classing
  - **Grain**: Our grain marketing model provides pricing from multiple buyers and offers a cutting edge commodity origination platform, maximising choice for growers

Strategic focus

1. Operating model
   - Continue livestock, wool and grain product development to improve and expand offering
   - Continue footprint expansion through targeted acquisitions
2. People
   - Continue footprint expansion through recruitment of key operatives with aligned values and performance characteristics

Agency margin ($m)

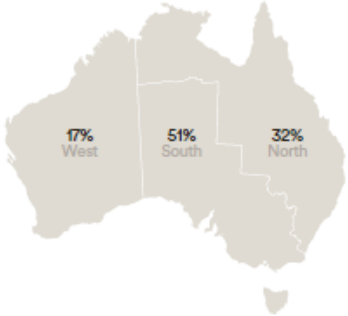




Margin by product



Margin split by geography



Business Division

Real estate services

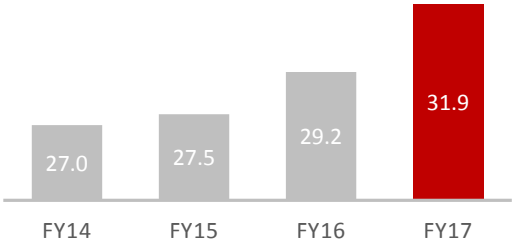
Business description

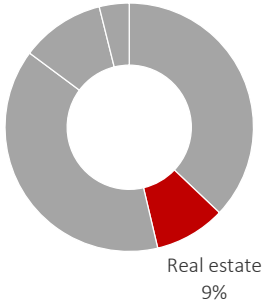
- Elders' real estate services include company owned rural agency services primarily involved in the marketing of farms, stations and lifestyle estates
- It also includes a network of residential real estate agencies providing agency and property management services in major population centres and regional areas through company owned and franchise offices
- Other services include water and home loan broking

Strategic focus

1. Operating model
    - Increase company owned presence in major regional centres
    - Ongoing focus on productivity and efficiency
    - Elders real estate enhancement
2. People
    - Recruitment of high performing sales representatives in both the broadacre and residential agency business
    - Recruitment of home loan brokers
    - Increased productivity through improvement initiatives and training

Real estate margin ($m)

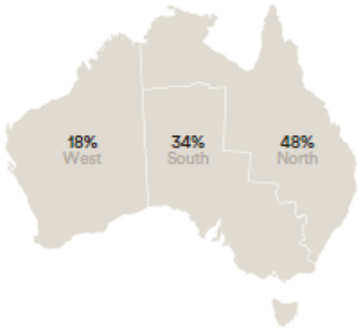




Margin by product



Margin split by geography



Business Division

Financial services

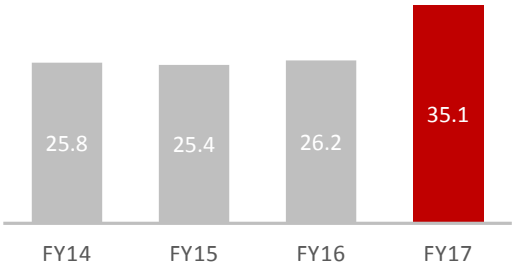
Business description

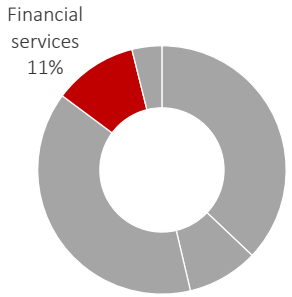
- Elders distributes a wide range of banking, funding, insurance and financial planning products through its Australian network
- We work with a number of third parties to enable us to deliver these products; Rural Bank and StockCo for banking and livestock funding products and Elders Insurance (a QBE subsidiary) for insurance
- Collectively, these relationships enable us to offer a broad spectrum of products designed to help our customers grow their business

Strategic focus

1. Deeper, more productive partnerships
    - Investment in aligned financial services product providers
    - Collaboration with Rural Bank to improve productivity and efficiency of sales team
2. Increased market awareness and cross-sell within Elders
    - Continue advertising investment
    - Further internal referral campaigns to drive cross-sell of Financial Services products to Elders customers

Financial services margin ($m)

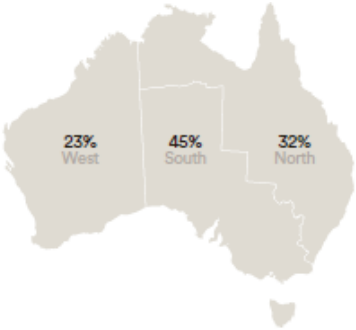




Margin by product



Margin split by geography



Business Division

Feed and processing services

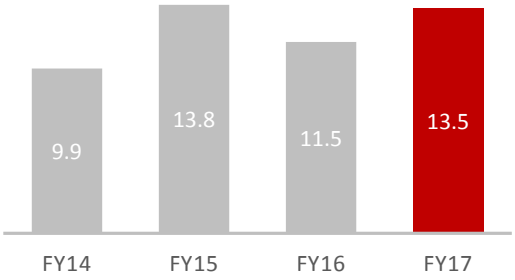
Business description

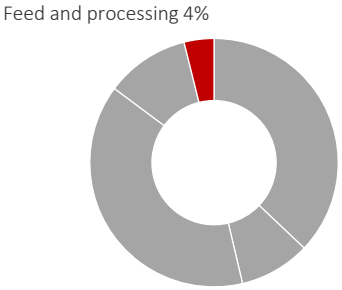
- In Australia, Elders operates Killara Feedlot, a beef cattle feedlot near Tamworth in New South Wales
- Elders imports, processes and distributes premium Australian meat in China
- Elders divested its Indonesian business in April 2018 – Elders' Indonesian business comprises an integrated feedlot, abattoir and meat distribution business

Strategic focus

1. Robust systems
   - Improve reporting and transparency allowing effective decision-making
2. Return on capital focus
   - Improve procurement strategies through backgrounding and use of external facilities for Killara
   - Allocation of capital based on approved business case discipline
3. Integrated red meat supply chain
   - Increase focus on higher margin markets
   - Expansion of Killara branded product in Bali market

Feed and processing services margin ($m)

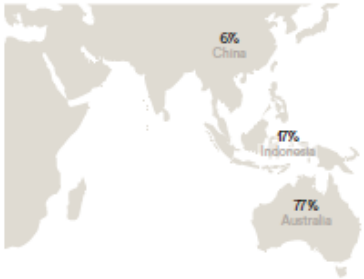




Margin by product [1]



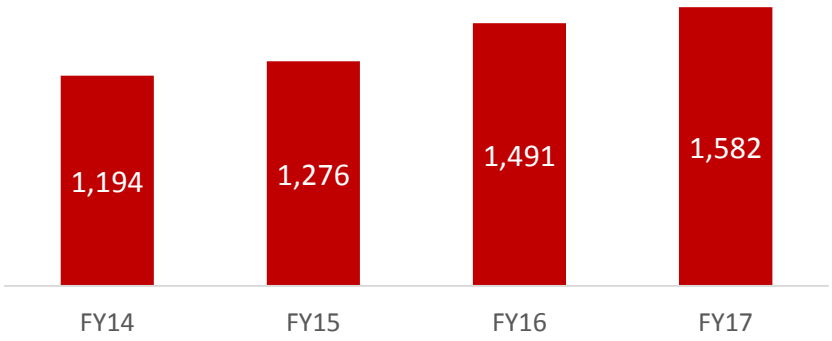
Margin split by geography [1]



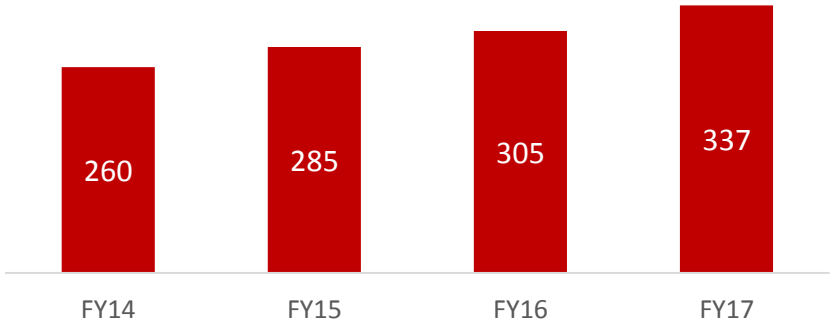
[1] *Margin by product and geography includes non underlying operations*

Strong group financials

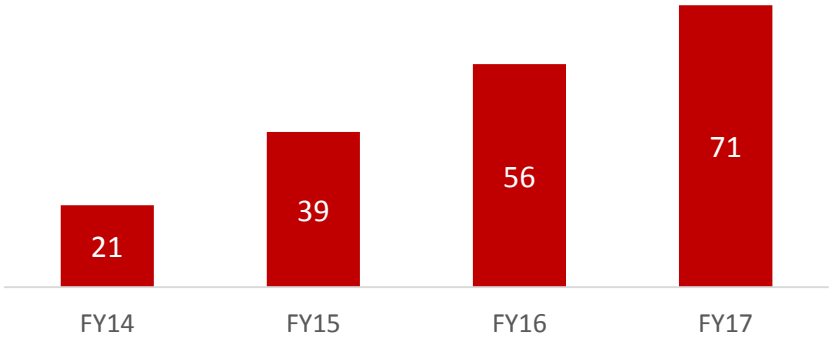
Sales ($m)



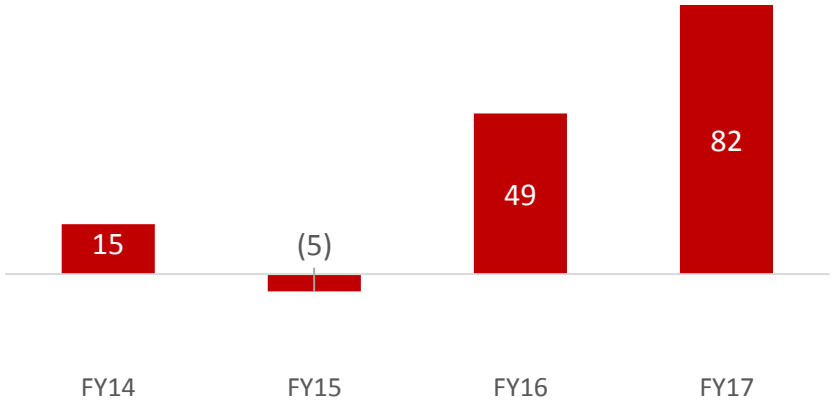
Gross margin ($m)



Underlying EBIT ($m)

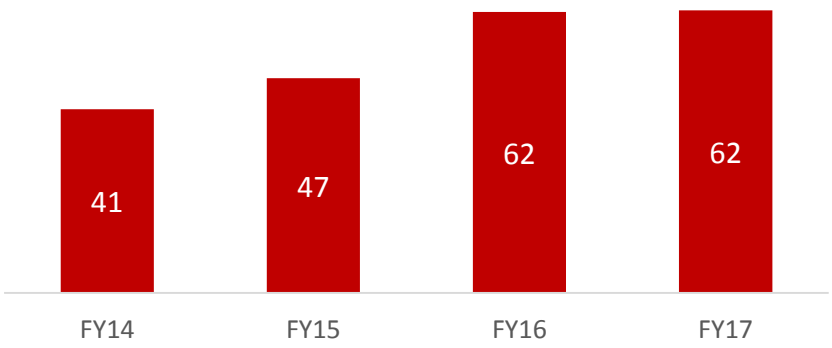


Operating cashflow ($m)

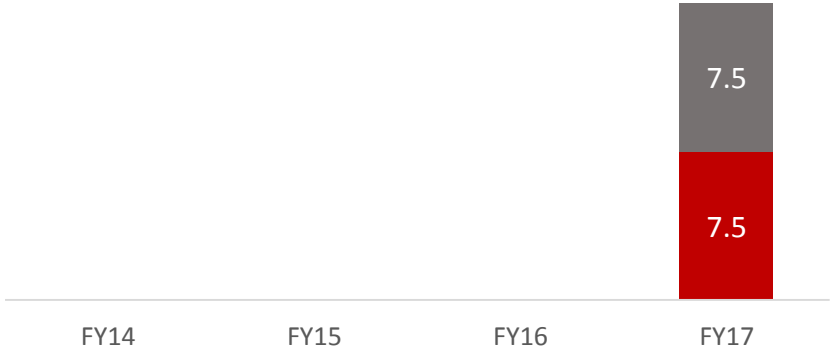


Driving improved shareholder returns and sound capital management

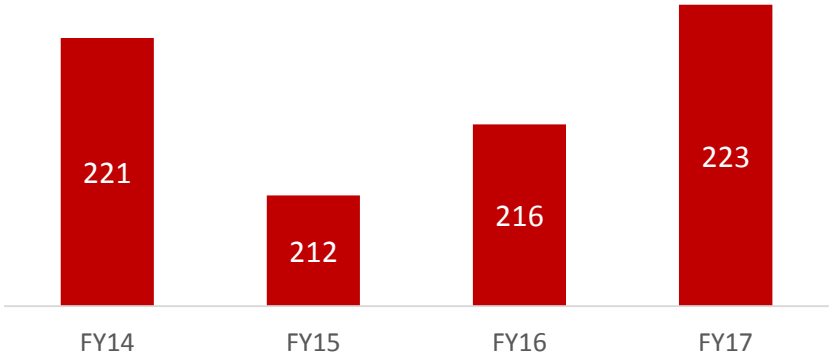
Underlying EPS (cps)



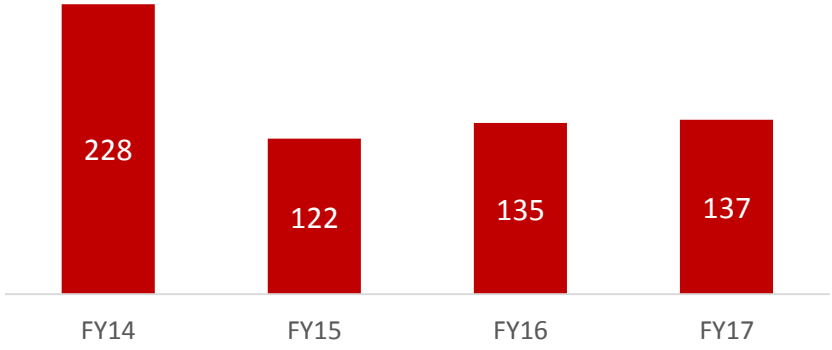
Dividends per share (cps)



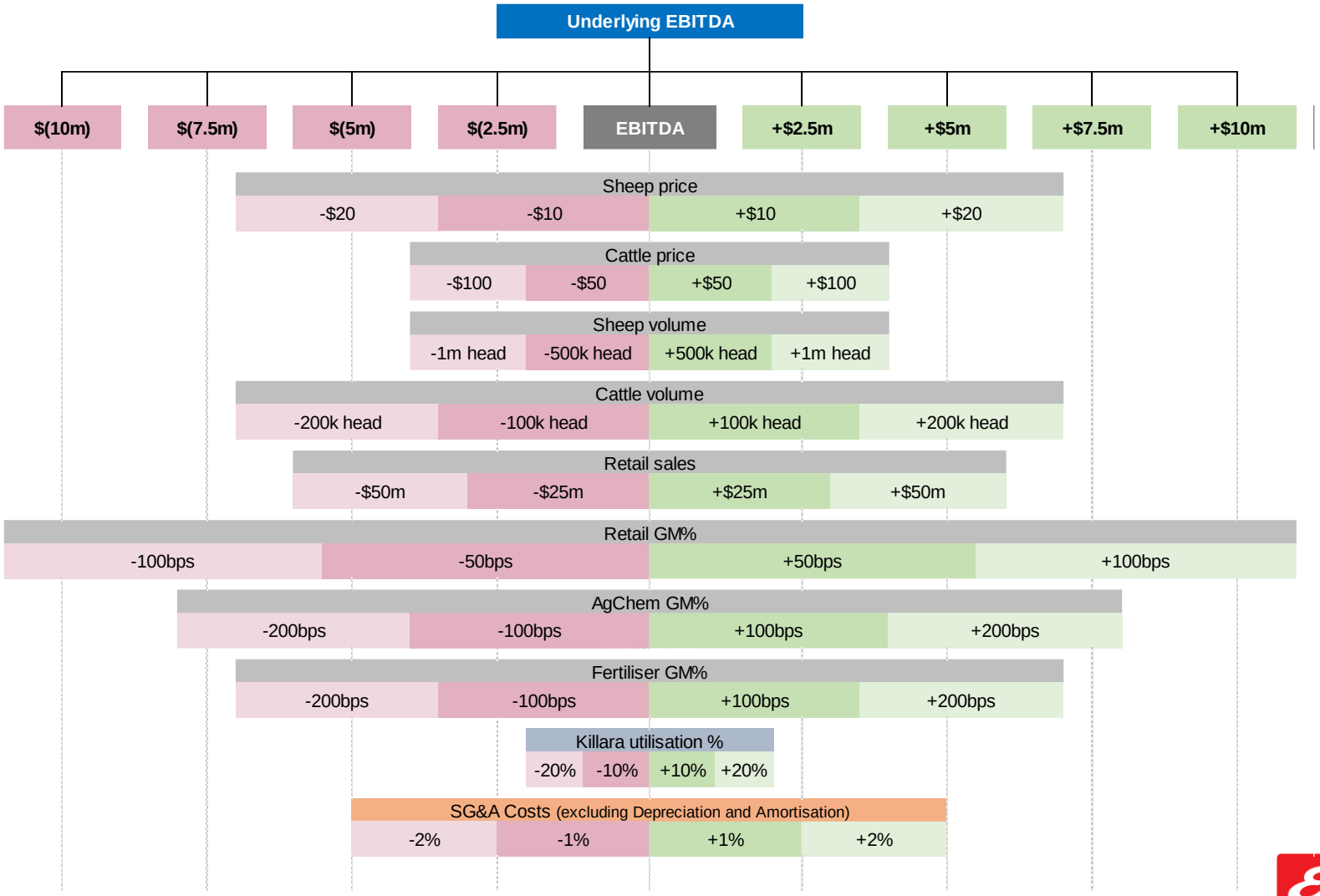
Average working capital balance ($m)



Average net debt balance ($m)



Profit Sensitivity









MARKET FORCES

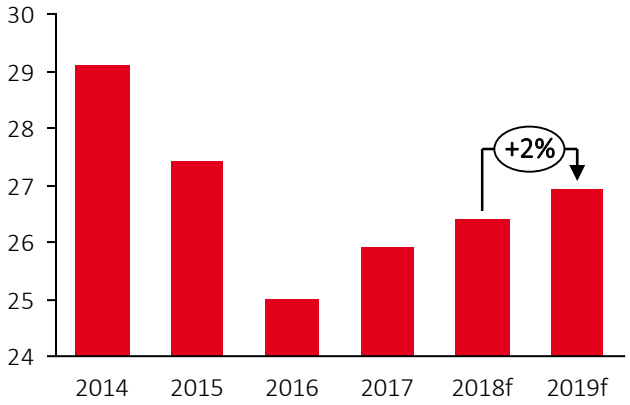
Elders

Cattle

- The herd rebuild is expected to continue in 2018-19. However, seasonal conditions in the north and high beef prices relative to long term averages will incentivise producers to maintain a high rate of turn off, constraining growth.
- Cattle prices are set to fall by 4% in 2018-19 to 439cents per kg, as competition in key beef export markets intensifies from competitors US and Brazil.
- Live exports of Australian feeder and slaughter cattle are forecast to increase by 4% to 910,000 heads, almost all the forecast growth is expected to go to Indonesia.
- Australian dairy herd numbers are expected to increase in 2018-19 by 1%, reflecting an expected rise in average farm-gate milk price of 48 cents per litre.

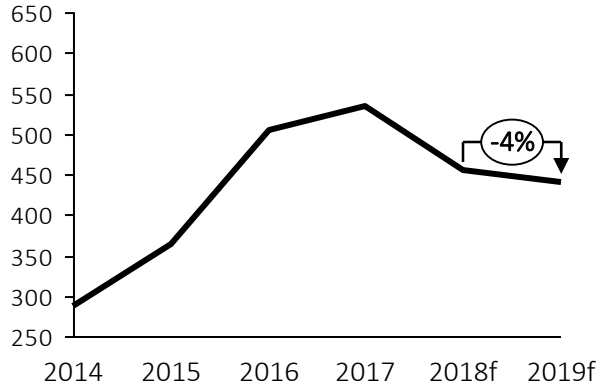
Australian Cattle herd

Million heads



Weighted average saleyard price

Ac/kg dressed weight

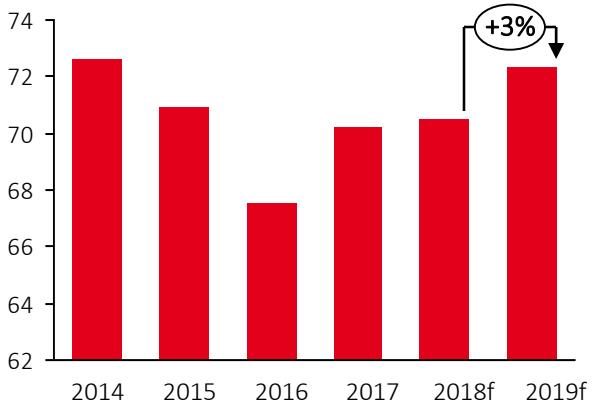


Source: ABARES Agricultural Commodities Outlook, March 2018

Sheep and Wool

National Sheep flock

Million heads



- The national flock is expected to increase by 3% in 2018-19 to 72m, representing a third continuous year of expansion. Most of the increase in the Australian flock is expected to be in sheep meat breeds.
- High lamb prices and assumed average seasonal conditions will provide producers with an opportunity to increase flock numbers.

Shorn wool production

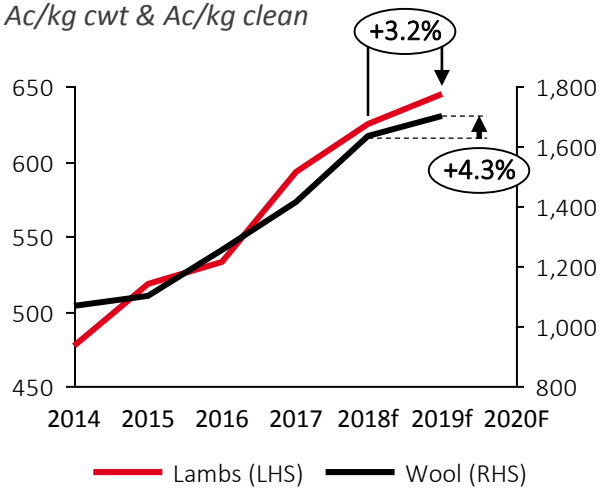
Thousand tonnes greasy



- Wool production is forecast to grow slowly, on the back of increased segmentation of the industry. In 2018-19 shorn wool production is forecast to be 350,000 tonnes, a 1% increase from 2017-18.

NTLI and EMI

Ac/kg cwt & Ac/kg clean



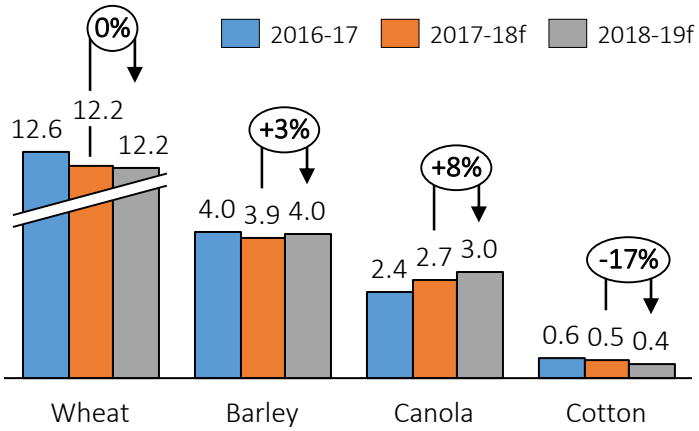
- Sheep and lamb prices are forecast to increase by a further 3.2% in 2018-19. This reflects strong competition at saleyards from restockers and processors, driven by strong demand in major export markets, particularly China.
- The EMI is forecast to increase by another 4.3% to $1,700 in 2018-19. This has been driven by global consumer demand for woollen apparel.

Source: ABARES Agricultural Commodities Outlook, March 2018

Cropping

Planted Area

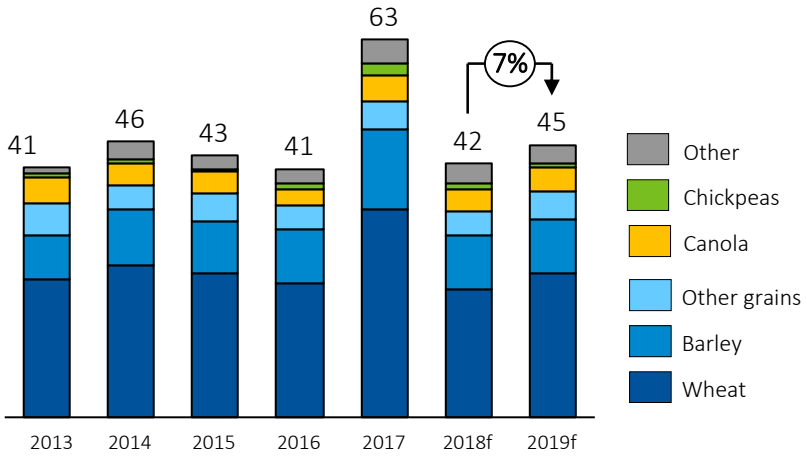
Thousand hectares



- In 2018-19 the planted area of wheat is expected to remain unchanged in response to low world prices, while the planted area for barley, oats, canola and sorghum is expected to increase, following increased profitability.
- In 2018-19 the cotton planted area is expected to decrease further driven by a fall in the average water level of public irrigation dams servicing cotton growing regions.
- Australian grain production is expected to lift in 2018-19, driven by an increase in yields, while global grain prices are expected to lift marginally in 2018-19, due to a decline in global supplies.
- In 2018-19, returns to Australian cotton growers at the gin-gate are forecast to remain relatively flat due to an abundant world production capacity keeping prices low.

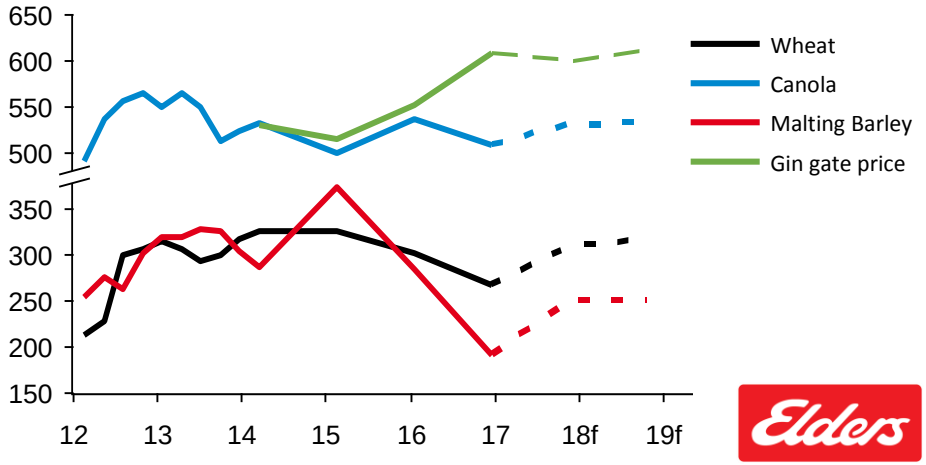
Production

Million Tonnes



Prices

A$/tonne



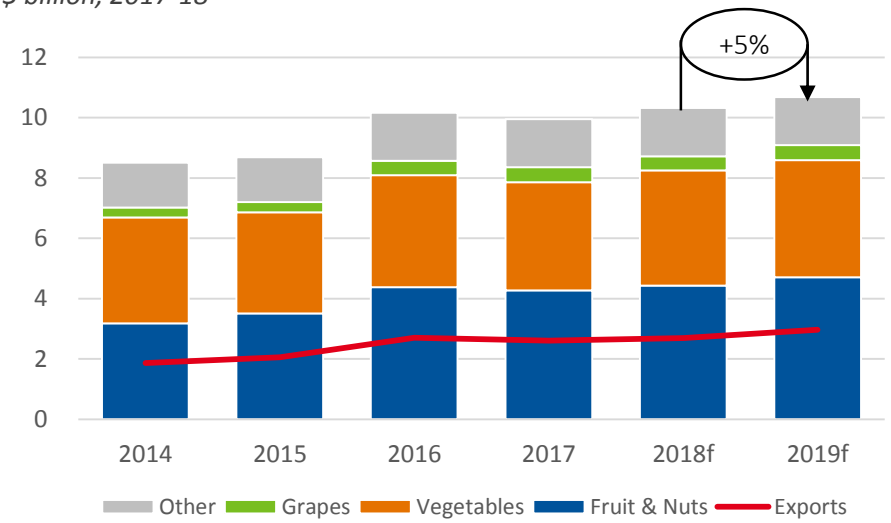
Source: ABARES Agricultural Commodities Outlook, March 2018

Horticulture

- The gross value of horticulture production is projected to increase to $10.9bn in 2018-19, underpinned by favourable domestic demand and export opportunities.
- The challenge for Australia tree nut production is maintaining international competitiveness. Increased global supply is expected to result in falling prices for Australian trees nuts, and the cost of water for irrigation is expected to raise prices.
- The gross value of Australian vegetable production is projected to increase mostly due to increases in the quantity of carrots, capsicums and tomatoes produced in Queensland and a favourable spring harvest along the east coast.
- Australian vegetable exports are expected to grow as a result of increased access to Asian markets, greater demand from Gulf countries and an expected favourable Australian dollar.

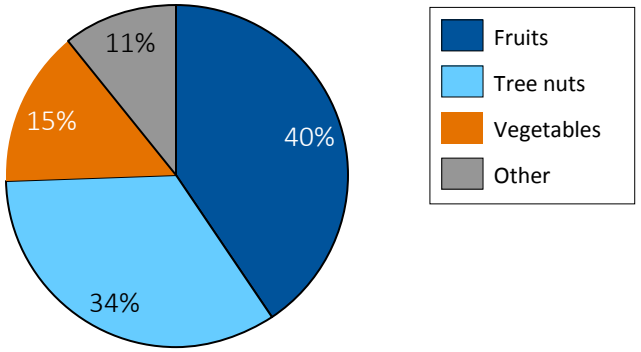
Gross Value of Horticulture Production

$ billion, 2017-18



Australia Horticulture Exports

By value, 2017-18



Source: ABARES Agricultural Commodities Outlook, March 2018







INDONESIAN DIVESTMENT

Elders

Indonesian Divestment

Divestment update

- Elders confirms it will divest its Indonesian feed and processing assets following a comprehensive performance review of the business unit in line with the Company's strategic Eight Point Plan.
- The divestment will allow circa $13m of capital to be redeployed elsewhere.
- High cattle costs and changing Indonesian governmental policies have adversely affected the performance of the business, making it appropriate to divest.
- Elders will continue to have a presence in Indonesia, China and Vietnam through our retail meat distribution businesses, which we intend to grow.

Indonesian business – Code of Conduct issue

- PT Elders Indonesia (PTEI), owns land in Sumatra, Indonesia, upon which, until recently, it operated a small palm oil plantation (**the Plantation**).
- PTEI became aware that regional police from the area in which the Plantation was located have been investigating allegations of corruption in respect of the licencing body in Indonesia which was responsible for issuing licences to the Plantation. Elders was informed by PTEI about this issue.
- Upon learning of these allegations, PTEI took steps to understand the issue and to introduce additional controls over systems and processes. These included:
  - Taking steps to ensure tighter payment controls;
  - Putting an immediate stop to the use of external consultants as part of the licensing process; and
  - Took steps to secure and retrieve documents
- PTEI obtained relevant information in relation to the matter which confirmed that conduct had taken place contrary to Elders' Code of Conduct. In particular, there was insufficient rigour and verification around the use of funds, and a lack of appreciation by PTEI representatives of the law concerning provision of benefits to public officials.
- Elders currently considers that this matter is unlikely to have a material impact on PTEI or Elders. The land on which the Plantation is located has no operational relationship with PTEI's feedlot and abattoir operations which are subject to a sale agreement. PTEI has entered into a sale agreement to sell this land, which is wholly written down, to an Indonesian buyer for an immaterial price.
- PTEI has chosen to voluntarily disclose this matter to the central anti-corruption authority in Indonesia (the Komisi Pemberantasan Korupsi (KPK)). Elders has also notified the Australian Federal Police about the issue and PTEI's report to the KPK and will cooperate with the authorities.
- Outside of issues relating to the Plantation, Elders does not have knowledge of any other instances of conduct in Indonesia that are potentially contrary to its values. However, Elders is reviewing practices employed by PTEI in its remaining operations to ensure full compliance with its Code of Conduct.


Elders