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18 November 2013

FY13 Financial Results

- **FY13 results impacted by difficult market conditions and impairments primarily driven by divestments and restructure to pure-play agribusiness**
- **Statutory loss of $(505.2)m compared to FY12 loss of ($60.6)m**
- **Items excluded from underlying loss of $(442.2)m**
- **Underlying EBIT loss of $(42.0)m compared to FY12 profit of $8.2m**
- **Continued net debt reduction for fifth consecutive year, down 14% to $255.2m**
- **Borrowings reduced from $385.8m to $294.7m**

Elders Limited (ASX:ELD) has released its financial results today for the 12 months to 30 September 2013, confirming a statutory loss of $(505.2) million. The loss was largely driven by $(442.2) million in non-recurring impairment charges, particularly to intangibles, and the de-recognition of tax assets along with other non-recurring items associated with divestments and restructuring to become a pure-play agribusiness. Challenging seasonal and market conditions also impacted the result.

The non-recurring items include $(201.8) million relating to the divestment of the Automotive business, $(159.3) million relating to the impairment of intangibles within Rural Services offset by profits on divestment of a portion of the Elders Insurance JV, a $(38.1) million write-down of tax assets, a $(16.7) million loss on forestry related items, and an additional $(26.3) million for restructuring costs and losses on discontinued operations.

The non-recurring loss for the Automotive business of $(201.8) million primarily relates to impairment of assets of $(166.5) million at the half year and recognition of loss on divestment of $(37.7) million upon finalisation of disposal accounting including tax impacts.

Full details on all non-recurring items are available in the 'FY13 Financial Results Discussion and Analysis' released to the ASX today.

Challenging seasonal and market conditions largely accounted for an underlying NPAT loss of $(63.0) million compared to a loss of $(10.6) million at the 2012 year end. Proactive cost and tight working capital management throughout the year helped to help offset these market impacts to some extent, particularly within the Australian Network.

As a result, Elders was able to continue with its priority debt reduction program during the year. Debt was reduced for the fifth consecutive year. At 30 September 2013 net debt of $255.2 million was $40.1 million lower than at the 2012 year end.

Elders recorded an underlying EBIT loss of $(42.0) million and an underlying loss before tax of $(58.2) million compared to an underlying EBIT profit of $8.2 million and an underlying before tax loss of $(4.9) million in FY12.

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Underlying EBIT in Rural Services reduced from $18.2 million profit in the previous corresponding period to a $(36.3) million loss due to seasonally affected lower network sales and an unprofitable result from global cattle trading. The Rural Services result included a total $(24.2) million charge necessary to restate the global livestock trading balance sheet after the Company identified that trading results had not been recorded in line with accounting policies.

Trading Investigation Update

Elders has (through an investigation undertaken by PPB Advisory) quantified accounting discrepancies in the Company's Universal Live Export business. It is evident that there was an overstatement of reported profit in the order of $4.8 million for FY12 and approximately $20.5m as at 31 March 2013 (which includes the $4.8 million overstated profits of FY12). The combination of these losses, together with further losses in the period between 31 March 2013 and 30 September 2013, has, as referred to above, impacted FY13 EBIT by $(24.2) million.

The FY12 overstatement appears to be the result of not recognising losses on livestock sold, together with incorrect assumptions related to the fair value of livestock values which did not eventuate. Elders made bonus payments to a number of Trading employees based on the FY12 result. Elders will consider its rights in connection with recovery of those bonuses if the final PPB report indicates that there are grounds upon which to do so.

In respect to the FY13 accounts it appears that losses were effectively "stored" on Elders' balance sheet rather than being correctly released to the profit and loss. This included losses due to the decline in the market price of livestock, failure to recognise losses on livestock sales and the cost of keeping livestock on hand. The current evidence points to likely inappropriate, and potentially fraudulent, activity.

The Company is continuing with the investigation into the accounting irregularities. Related issues that have been uncovered during the course of the investigation have been notified to the appropriate authorities. A new organisational structure has been implemented that will deliver significantly improved governance and oversight. The Company will make further disclosures on the findings from the investigation at an appropriate time in the future.

Forestry Divestment Update

The progress made in 2013 has Elders' forestry wind-down and asset divestment approaching completion. All freehold land has now either been divested or committed to restructure transactions with major landlords. All MIS schemes established by Elders Forestry have been terminated, or are otherwise in the process of being wound up with the approval of scheme investors. This process will be finalised with a payment to investors in remaining schemes in December 2013.

Elders continues to finalise exit arrangements in respect to leasehold land with those properties remaining and not subject to conditional agreements to surrender, accounting for approximately 3% of the plantation estate held at the commencement of the forestry divestment program.

Commentary

Commenting on the results, Elders Limited Managing Director, Malcolm Jackman said: "The 2013 year marks the near completion of a five year process of rationalisation and restructuring of assets, operations, finances and carrying values in order to refocus Elders on its core strength and historical purpose – rural services."

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“The impact on statutory profit was largely driven by non-recurring items associated with this long sought after objective and, without trying to diminish or overlook the costs to many of the stake-holders involved, we are relieved to have finally reached that goal. Elders can finally focus all of its management and staff attention on operating our core business and serving our customers.

“With the completed divestment of Futuris Automotive, the near-completion of the forestry wind-up program, and continued support from our financiers, Elders is again a pure-play agribusiness.

“As a result of these divestments and other initiatives, Elders has achieved substantial reduction in both core bank debt and gross debt, recording the company’s fifth consecutive year of reduced debt.

“Given the seasonal conditions, the downturn in sales and margin generated within the Rural Services business during 2013 appears consistent with industry experience,” Mr Jackman said.

The restructure of the operations announced in September this year, which has been implemented, is expected to improve sales and earnings capability and client focus of the Elders Network, as well as an anticipated cost savings of approximately $25 million per annum.

Mr Jackman said Elders was continuing discussions with a number of parties that have expressed interest in re-capitalising the company on the basis of its sole focus, brand and network strength as a pure-play agribusiness. At this time no binding or complete proposals have been received and the Company will keep the market informed as appropriate.

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