



19 December 2013

2013 AGM - Chairman's Address

Attached is a copy of the Chairman's Address to the 2013 Elders Limited Annual General Meeting being held in Adelaide today.

Peter Hastings
Company Secretary



Address by the Chairman, Mr Mark Allison

2013 Annual General Meeting of Elders Limited

Slide: Elders

In beginning my address this morning I acknowledge the honour in speaking to you for the first time as Chairman of Elders Limited, an organisation which involves:

- some 2,200 employees and 209 branches serving over 50,000 primary producers across the country, and international markets
- 104 real estate and insurance stores and 139 real estate franchises
- some 32,000 security holders
- and a brand name which is regarded as synonymous with Australian agricultural enterprise around the world.

Elders is also a name which is part of the fabric of Australian life, especially in rural regions where the brand is visible in the commercial services and community institutions that support country living, such as real estate and insurance services or on display as a sponsor at sporting clubs and showgrounds.

I can assure you that I, and my fellow directors, are mindful of the responsibility and privilege attendant with governance of an organisation possessing this many stakeholders and this significance to Australian rural life.



However, as is clear from the 2013 annual report, Elders has not performed as it should. While I have received encouragement from clients who express their appreciation and satisfaction with the service and advice they receive from Elders, the company's financial performance is unsustainable.

The 2013 results are the poorest Elders has reported, regardless of whether performance is measured at the statutory, or underlying level. As I noted in my foreword to the 2013 annual report, results such as these have led to the question "what now for Elders?" amongst those who follow the company.

This is exactly the question I would like to speak to today, and more specifically the priorities your board and management will be addressing in 2014 so that Elders can ultimately deliver the financial performance that should be expected of an organisation with sales revenue of \$1.7 billion, an established network, a market-leading brand and market-leading positions in key product areas and geographies.

However, before I do so, I must address the 2013 financial results and events that have taken place since the publication of the annual report.

Slide: 2013 Financial Results

2013 financial results and position

The financial results and balance sheet at year-end have been published in the annual report and I will not reiterate the details.



The statutory loss of \$(505.2) million included a loss from underlying operations of \$(63.0) million and a further net loss of \$(442.2) million from items excluded from underlying profit as they do not relate to operational results from continuing operations.

It is relevant to note that this large non-operational loss is chiefly composed of items relating to the transformation of the business to an agricultural-focused pure-play and the impairment of the Elders brand to modest levels.

The underlying loss was influenced by unfavourable hot, dry conditions affecting large parts of northern and eastern Australia for much of the year, and the impact of a \$(24.2) million charge following the company's discovery of inappropriate accounting for some international livestock trading transactions. I will speak on this matter in more detail, shortly.

Elders' underlying results were substantially affected by this matter and the unfavourable seasonal conditions. However, the fact remains that the former event was initiated within the company and is within our control, and that the unseasonable weather is part and parcel of agribusiness.

From this I have two observations:

- Firstly, while the 2013 statutory loss reflects, to a large degree, the transition to an agriculture pure play, the underlying loss evidences the need for improved day to day management and performance from the business, and
- Secondly, that your board believes that, given the appropriate capital and business management, Elders has the capacity to bridge the shortfall in its performance and to return Elders to being a sustainably profitable agribusiness.



The transition of the company from an industrial conglomerate to a focussed agribusiness has been accompanied by sustained progress in debt reduction. Over the course of 2013, Elders reduced its gross borrowings by \$92 million to \$295 million. This represents a reduction of 24% on the previous year's level and it has positioned the company for what is intended to be a final round of deleveraging in the coming year.

Before I turn to discuss the future, there have been two events subsequent to the release of the 2013 Annual Report which I would like to address: the findings of a report into the incorrect accounting of livestock trading within the Trading division and the departure of the Chief Executive in November.

Trading balance sheet investigation

Slide: Trading balance sheet investigation

In October, Elders advised the ASX of discrepancies it had identified within the accounts of its Trading operations which it would immediately subject to an independent investigation. The final report from the investigator, PPB Advisory, is expected to be received early in the new calendar year. But, as announced to the ASX yesterday, preliminary findings have been received and, given the significance of this matter in the full year results, I would like to brief this meeting on those key findings and the actions taken and intended by the company.



The preliminary findings conclude that live export trading profits and assets were overstated through non-compliance with Elders' stated livestock accounting policy and accounting standards in respect of certain transactions in the 2012 financial year and 2013 first half year. At this point, I would like to reiterate that the resultant overstatements have been corrected *in full* by the adjustments made to the 2013 financial statements that I have just mentioned.

PPB Advisory found that the discrepancies were supported by falsified documentation and journal entries and misleading management representations to senior management and external auditors. Evidence attributing responsibility for the overstatements to a handful of individuals who were then employees of the Trading business unit has been identified.

Elders has acted pre-emptively in advance of the final reports to change reporting systems and structures to increase protection against deliberate and collusive breaches of its accounting policies.

In respect of the individuals identified by PPB Advisory as responsible for the overstatements, Elders will consider its position after receipt of the final reports from PPB Advisory. Elders will not hesitate to refer matters to the relevant authorities where applicable.

Departure of Managing Director

Slide: Departure of Managing Director



As advised to the ASX on November 27, Malcolm Jackman has stepped down from the position of Chief Executive and Managing Director following agreement with the board that with the restructuring largely complete, it was time for a new Chief Executive who would lead Elders through its re-emergence as a pure-play agribusiness.

As an interim measure, I am currently chairing the Executive Committee of the company's senior management while the recruitment process is conducted. On behalf of all shareholders I would like to acknowledge the contribution that Malcolm has made to this company over the past five years.

Malcolm initiated, designed and then led the process to release Elders from within its parent company, the industrial conglomerate Futuris Corporation, and thereby return the Elders name to the ASX listings.

Apart from Elders, Futuris Corporation's diverse interests at the time included property development, forestry, automotive components, aquaculture and telecommunications as well as debt exceeding \$1.2 billion.

The fact that Elders is now an agribusiness pure play with debt levels that are a billion dollars lower than in December 2008 is something which can be attributed to Malcolm Jackman's leadership.

I would like to record at this meeting our gratitude and thanks to Malcolm for his leadership and untiring efforts through this period, which coincided with some of the most uncertain and volatile economic climates for many years.

Priority areas of focus

I would now like to turn to the question of the future, and more particularly the four key areas the company has identified as critical priorities in the current period and the longer term.

Slide: Priority Area of Focus 1: Safety

Safety

The first of these is safety. It is clear that Elders has made progress in this respect, with our results showing steady improvement, the introduction of systems that promote reporting, effective analysis and management and the rollout of new strategy.

Like most companies, we measure and analyse safety a number of ways including injury frequency rates and hours lost (both of which have improved). But the simple truth is that the only measure that really counts is whether all of our team are safe, all of the time they are at work.

Over the last 12 months there have been 273 incidents where employees have received injuries in the performance of their duties, 33 of which have resulted in lost time. Those numbers should be zero. We have a vision to have no injuries to anyone ever.

I realise that this will require more than talk and statements of intent from the board. But the fact is that operations once accepted as being inherently dangerous, such as mining, now routinely target and record zero injury rates. Elders can be, should be, and must be, an injury-free workplace for all of our employees.

Operational performance

Slide: Priority 2: Operational performance



The second area of priority is operational performance. Like safety, this can be measured in many different ways; but ultimately businesses live, dwindle or die according to the returns they generate on capital entrusted to them.

With the restructuring process and its distractions largely completed, it is time for Elders to sharpen its focus on operational performance and move to generating the type of returns that will earn its right to grow. This is a point on which we as an organisation must be absolutely clear and I repeat: Elders must earn the right to the funds which will fuel its growth, and it will need to do so on the basis of its operational performance – not because it has a 175 year history, an extensive network or a great brand.

What does that mean in practice? I believe it must start with having a strong domestic business, on “getting the right core business and the core business right”, before looking elsewhere.

Australian agribusiness can be great business to be in, supporting world class producers whose product and enterprises are being accorded rising economic and strategic value by world markets. The returns and outlook can be exciting - if you can manage the demands inherent with a high volume, low margin, high capital and high cost business. Success requires exceptionally tight management of expenses and working capital, amongst other things, but the result will be a well-managed, capital-light, cost controlled business that is generating returns in excess of its cost of capital and is growing as a result.

Again, just like the zero injury workplace we are seeking, this will not just happen. The Executive Committee is working diligently on day-to-day

performance, and examining where more change is necessary to get operational performance to the level needed by the business. Appropriate culture and risk management are critical elements and, as we have identified from the Trading balance sheet investigation, risk management is an area where improvements must be made.

Capital Management

Slide: Priority 3 Capital Management

Capital management is the third area of priority. I appreciate this is a subject which has been a fixture in Elders commentary over the past five years, but the goal posts have moved somewhat in 2014.

The current period will see the final significant cash outflows from Forestry as the company makes its final grower payments and all but completes the process of obviating its forestry leasehold obligations.

Projected completion of the Forestry Divestment program and the sale of Futuris Automotive mean that from March 2014, for the first time in many years, the cash flow generated by Elders Rural Services operations will not be required to help meet the funding requirements of other businesses.

Our finance facilities extend until December 2014, and include requirements for some paydown of term debt at intervals during that period. It is anticipated that the earlier paydowns will be met by the proceeds from the sale of assets identified as not being core to our agribusiness product offering. The transactions in question are at varying stages of maturity and you can expect announcements on this in due course.



Conduct of a recapitalisation will enable Elders to complete a further paydown in term debt and redress the depletion of the balance sheet that has occurred over the course of the restructuring process. Importantly, the reduction to term debt and improvement in balance sheet metrics will position the company to refinance and reset its finances on terms that are more supportive of our business aspirations.

I have just noted how the restructuring will free the business from the capital demands of the divested forestry and automotive operations. We are also working to reduce the capital intensity of the remaining agribusiness operations, starting with our Trading activities where we will maintain our presence and activity but with a model more closely aligned to the traditional role of intermediary between producer and buyer performed by Elders and less of the higher risk principal involvement.

The shift to a lower capital intensity business is consistent with the deleveraging path before us. It is a change we embrace and pursue vigorously in the knowledge that it is essential to achieving the return on capital that will earn Elders the right to grow.

Succession

Slide: Priority 4: Leadership

The fourth and final area of priority is succession or, to express it more accurately, leadership renewal.

Executive search specialists have been appointed to identify and recruit the most suitable person to take on the role of leading Elders as an agribusiness. This is another area where the transition to a single business enterprise will



enable more specific criteria and, we think, a more attractive position for a leader with strong financial management capabilities and an enthusiasm for providing outstanding values-based leadership. We are hopeful of being in a position to announce the appointment of Elders' new Chief Executive by the end of the March 2014 quarter.

Of course the organisational needs extend beyond the vacant chief executive's role.

The board of directors currently consists of just two non-executive directors and a non-executive chairman. This is less than desirable given the priorities in safety, operational performance and capital management. More particularly, we are seeking to add to the depth of financial management and agribusiness experience on the board through the recruitment and appointment of two additional non-executive directors. A recruitment process for the additional directors is underway.

This increase in director numbers is driven by business needs and we are mindful that the board structure and cost be appropriate for the company.

Accordingly, we will be seeking to reduce the remuneration pool from the current level of \$1.8 million approved by shareholders at the 2006 AGM (when the company had nine directors) to a level that is aligned with the current business requirements. We have also submitted the fees paid to directors to a benchmark review to ensure they are consistent with organisational needs and fees paid by comparable organisations.

I also note that my remuneration is unchanged, notwithstanding the additional duties and time required of my role until a new chief executive is appointed.

Current trading

Slide: Current Trading

Turning now to current year performance.

Comparison and analysis of short term trading results in agribusiness should be conducted with caution given the volatility that can arise from the timing of seasonal weather patterns. With this qualification, I am pleased to report that Elders has begun the new financial year with improved earnings compared to the prior corresponding period.

Like 2013, the year has begun with abnormally dry conditions over much of the agricultural regions. This has been reflected in farm supply sales.

However, improvement from Elders' traditional agency businesses in livestock and real estate, the cost-outs brought by the restructuring undertaken late last year, and a solid result from Trading all contributed to stronger earnings from operations.

Market and seasonal conditions always vary and, so far at least, are positive on balance. Favourable factors in comparison with the previous corresponding period include higher livestock volumes and sheep prices, higher turnover in both rural and residential real estate and increased lending.

The results from Trading are particularly pleasing given the disruption this division experienced in 2013. Demand for Australian cattle remains strong in both short haul and long haul markets and our customers have continued to work in partnership with Elders.



It is too early in the financial year and seasons to make a responsible call on full year earnings.

But the year has begun well. The benefits of the lower costs brought by the restructuring in 2013 should continue to accrue over the course of the year and we expect the business to respond to the emphasis being applied on cost and capital returns.

Slide: Concluding comments

To conclude, Elders understands that 2014 will be another demanding year and, as I hope I have communicated, the greatest demands will come from within rather than from outside the organisation.

Restructured as a single business enterprise, the company is aware of the need to, and is resolved to, lift its safety, capital return and management and operational performance as an agribusiness. I spoke before of the board's confidence that the business could bridge the gap between its 2013 performance levels and what should be expected. Our confidence comes from recognition of the fact that Elders possesses the base ingredients for its success, an established core cash generating business, strong brand and client support and an established network. Satisfactory progress in the current year in the priorities of safety, operational performance, capital management and leadership renewal should see Elders move significantly towards acquiring the same regard as an investment and listed agribusiness as it does in the rural markets and communities we serve.

Slide: Chairman's Address

2013 AGM

Thursday, 19 December 2013
Adelaide Convention Centre

A man wearing a light-colored wide-brimmed hat and a pink short-sleeved button-down shirt is standing in a field of tall, golden-brown plants. He is looking down at a plant he is holding in his hands. The background is a vast field of similar plants under a clear blue sky.

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Chairman's Address

Mark Allison

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Elders.....

- 2,200 employees
- 209 branches
- 104 real estate and insurance stores
- 139 real estate franchises
- over 50,000 customers
- international clients
- 32,000 security holders
- a brand synonymous with Australian agricultural enterprise
- the respect and appreciation of its clients
-but financial and share performance is unsustainable

2013 Financial Results

Show restructuring impact and need for improvement.
Elders can bridge the shortcoming in its performance

\$ million	2013	2012
Statutory profit (loss) after tax	(505.2)	(60.6)
Excluded from statutory profit after tax	(442.2)	(50.0)
Underlying profit (loss) after tax	(63.0)	(10.6)
Borrowings	294.7	385.8

- Statutory result shows impact of restructuring and impairment to intangibles
- Underlying result shows need for improved operating results
- Elders has the capacity to bridge the shortcoming in its performance – given appropriate capital and business management

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Trading balance sheet investigation

Independent investigation of misrecorded Trading sales, reported to ASX and corrected in FY13 accounts

- Certain international livestock transactions not recorded consistent with policy and accounting standards
- Immediately referred to independent investigation by PPB Advisory
- Final report yet to be received from independent investigator PPB Advisory
- Preliminary findings by PPB Advisory reported to ASX 18 December 2013
- Elders has acted to increase protection against deliberate and collusive breaches of accounting policies
- Elders has recognised the accounting impact in full with the adjustments made in its FY13 accounts
- Elders to consider its position after receipt of final report and will not hesitate to refer to relevant authorities where applicable

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Departure of Managing Director

Restructuring near complete, time to transition to new CEO

- As advised November 27, agreement for Malcolm Jackman to step down
- Search commenced for new chief executive to lead Elders as it emerges as pure-play agribusiness
- Interim measure: Chairman to chair executive committee of senior management till recruitment completed
- Recognition of Malcolm Jackman's leadership

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Priority Area of Focus 1: Safety

All employees must be safe, all of the time

- The first consideration on every day and in every workplace
- Progress made... lower frequency rates, and hours lost but..
 - last 12 months: 273 incidents where employees injured, 33 with lost time
- **Elders must be an injury-free workplace for every employee, every day**

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Priority 2: Operational Performance

Generate a return on capital that appropriately rewards invested funds

- With restructuring complete, focus must now sharpen on operational performance as an agribusiness
- Get the right core business and get the core business right
- Risk management
- Success is a well-managed, capital-light, cost-controlled business generating return in excess of cost of capital

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Priority 3: Capital Management

Shifting to a lower capital intensity business to deliver and to achieve return objectives

- 2014 brings changes to options and requirements
- Cash generated by Agribusiness will no longer be required for forestry or automotive; final significant outflows from Forestry in H1 14
- Finance facilities extend to Dec '14, with scheduled paydowns
 - sale of assets not core to agribusiness
- Recapitalisation for further paydown and for balance sheet
- Making changes to reduce capital intensity of agribusiness operations

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Priority 4: Leadership

Succession and renewal. Skills, depth for re-emergence as an Agribusiness. Board remuneration action.

- Executive search for Chief Executive with strong financial management and value based leadership skills
 - targeting appointment by March 2014
- Board depth to be increased to support achievement of priorities
 - recruiting two additional non-executive directors with emphasis on agribusiness and financial management
- Directors' fees remuneration pool to be reduced
- Directors fees being subjected to benchmarking review

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Current trading

FY14 has started positively

- Short term comparison in agribusiness requires caution due to volatility
- Results for two months to 30 November show improved earnings over pcp:
 - farm supplies affected by dry conditions
 - livestock agency, real estate and banking
 - solid results from Trading
- Lower costs enabled by 2013 restructuring

Concluding comments

Moving Elders to command the same respect as an investment that it holds in the rural and real estate markets it serves

- With restructuring near complete, the demands to perform as an agribusiness will be increased.
- Elders possesses the base ingredients for its success:
 - a core cash-generating business in place
 - strong brand and client support
 - established network
- Current year priorities of safety, operational performance, capital management and leadership are essential for acceptable base line performance.

Chairman's Address

Mark Allison

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Ordinary Business

Agenda Item 1

To receive and consider the Financial Report and the Reports of the Directors and the Auditor for the 12 month period ended 30 September 2013.

No vote is held in connection with this item.

Resolutions and Proxy Voting Intentions

Agenda Item 2

Resolution

To receive and adopt the Remuneration Report (which forms part of the Directors' Report) for the 12 month period ended 30 September 2013.

Note that the vote on this item is advisory only and does not bind the Directors or the Company.

Agenda Item 2

Proxy voting intentions

To receive and adopt the Remuneration Report (which forms part of the Directors' Report) for the 12 month period ended 30 September 2013.

	For	Against	Open	Abstain
No. of Shares (millions)	123.5	8.1	4.1	0.62
% of Total Directed Proxies	90.94	6.00	3.06	N/A

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Agenda Item 3.1

Resolution

Re-election of Director

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

3.1 Re-election of Mr J Hutch Ranck

“That Mr J Hutch Ranck, being a director of the Company who retires by rotation pursuant to Rule 8.1.5(b) of the Constitution of the Company, and being eligible, is re-elected as a director of the Company”.

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Agenda Item 3.1

Proxy voting intentions

Re-election of Director

3.1 Re-election of Mr J Hutch Ranck

	For	Against	Open	Abstain
No. of Shares (millions)	126.3	5.7	4.0	0.45
% of Total Directed Proxies	92.82	4.24	2.94	N/A

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