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Elders Limited
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Elders announced yesterday that it had secured formal agreement from its banks for an extension of its June 30 2009-dated debt and waiver of covenants until 30 September 2009. Why was the extension necessary?

CEO Malcolm Jackman
As we advised the market in May, we're in discussions with our banks to refinance our current facilities with the intention of replacing our existing bilateral agreements with a secured syndicated facility.

The move to refinance rather than simply roll over our debt will offer benefits for all parties; but in the current economic climate it has brought additional requirements which have taken, and will continue to take, time to work through. The extension will ensure there's sufficient time to achieve a refinancing on terms acceptable to all parties.

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Do the terms of extension include any material differences from those that previously applied?

CFO Mark Hosking
The most significant difference is the agreement by Elders and certain of its wholly-owned Australian subsidiaries to provide what we're calling 'collapsible' security and guarantees which provide lenders with security and guarantees subject to release provisions. These provisions provide that the security and guarantees given by each company are automatically released and discharged by 30 September 2009 unless that company otherwise agrees, which it would be expected to do as part of the refinancing.

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Are all advances under the facilities subject to this type of collapsible security?

CFO Mark Hosking
Existing advances and new general draw-downs under the existing committed facilities, such as cash and bill funding drawings, are subject to the collapsible guarantees and security.

Certain new advances such as the issue of bank guarantees and foreign exchange lines (where the banks currently have discretion whether to advance or not) will be required to be supported by cash backing or non-collapsible security.

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Has there been an interest rate step-up as part of the extension?

CFO Mark Hosking
We'll also incur an additional interest rate margin during the extension period that works out to be an average increase of about 300 basis points above the existing cost of debt.

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What is the cost of the refinance and how will it be treated in the accounts?

CFO Mark Hosking
To date, the extension and refinancing process has involved expenditure of approximately $10 million. This includes the extension fee, our expenditure on our own advisors, plus the cost of the advisors to the banks and noteholders which we're obliged to pay under the terms of our lending agreements. The majority of these costs will be treated as non-recurring and will be expensed in the 2009 financial year.

Obviously there will be further expenditure in the period to 30 September as we complete negotiations and documentation but at this stage it's too early to make a call on the quantum of the total cost. However we've undertaken significant work in relation to a longer-term refinancing to date.

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Where is Elders in relation to its covenants?

CFO Mark Hosking
The extension agreement includes a waiver of existing covenants until 30 September 2009. Reaching agreement on the appropriate covenant provisions that will apply under the new facilities on and beyond 30 September will be an important element of the negotiations over the next three months.

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What is the current status of the negotiations for the new facilities and when do you expect completion?

CFO Mark Hosking
Obtaining the extension has been an important step towards achieving a longer term refinancing and negotiations on the new facilities are progressing in line

with our timeline. We continue to have constructive dialogue with our bankers and noteholders and are hopeful of reaching agreement on the terms of the refinancing and being in a position to announce completion by no later than 30 September.

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What are your expectations of the new facilities? Do you expect material differences from your existing arrangements?

CFO Mark Hosking
The new facilities will bring some material changes but also some significant benefits to Elders.

For a start we anticipate moving to a simpler, cleaner structure with a single syndicated facility rather than the seven bilateral agreements that exist at the moment. Secondly, we expect the new facility to afford a longer average term by reducing the portion that has to be rolled every 364 days.

In keeping with current market trends for companies going through a refinancing process, we'll be moving away from a completely unsecured position to one that offers security to the banks and noteholder financiers on mutually acceptable terms.

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In your market update of 19 May Elders advised that net debt was expected to approximate $800 million as at 30 June. What are your expectations for year-end net debt now?

CFO Mark Hosking
The final net debt position as at June 30 will depend on actual MIS sales achieved and our trading results for June, which we'll be able to determine once the June accounts have been finalised. At this stage we're anticipating a modest increase in the net debt position above the previously advised position of $800 million.

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In your Agenda for Change announcement of 1 December you identified debt reduction and a stronger balance sheet as a priority. What opportunities exist for debt reduction in the near term?

CEO Malcolm Jackman
We're continuing to advance the program for the sale of non-core assets we announced under the Agenda for Change.

So far we've realised approximately $270 million of capital from the sale of those assets. We estimate that completion of the sale of the residual assets in the program will realise a further $100 million or more. Those assets include our shareholding in HiFert and our aquaculture interests. The sale of Futuris Automotive, which we've previously identified as non-core, remains deferred until market conditions improve.

Additionally, we'll be reviewing our total portfolio of assets as part of our three-year capital management plan to determine what is core and non-core.

When you have a strong business with an icon brand such as Elders, you get a lot of approaches from brokers and investment bankers with interesting proposals for capital raising. Entitlements-based equity issues are certainly an attractive option that could help bring debt back to more sustainable levels whilst offering upside benefits to shareholders.

Our move out of the ASX 100 and the emergence of the “new Elders” has generated renewed and significant interest in the company amongst investors. Accordingly we expect that equity will be a key part of our capital management plan.

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Are you able to provide an update on June trading conditions?

CEO Malcolm Jackman
We’re yet to finalise accounts for the month so it’s too early to provide a definitive conclusion on the month’s trading.

It’s been clear that trading has been affected by the uncertainty that’s attendant on the extension and refinancing process. Sales in the period leading up to our announcement of an in-principle agreement were soft. However, sales have been strong in the eight days since we made that announcement. Of course, lower margins have been an issue across the industry throughout the second half so we expect the margin contribution will be lower than the previous corresponding period.

Notwithstanding this, the response of the people in our businesses has been outstanding and the sales result over the past eight days of trading look to be very encouraging in relation to forward trading conditions once we put the uncertainty of our refinancing process behind us.

As you would expect, MIS sales have been hard work this year for all the remaining active players. ITC has not only had to deal with the loss of confidence arising from the failure of Great Southern and Timbercorp but also with the disruption and speculation that has arisen from our own refinance process. We constantly remind market participants as to the reasons the ITC business is more favourably positioned relative to those that have failed.

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Earlier this year Elders secured approval for a change in balance date from 30 June to 30 September, commencing this year through a 15 month transition year. What does this mean for your reporting schedule?

CEO Malcolm Jackman
We’ll announce results for the 12 months to June in August on, or around, our usual time. However our financial year will conclude on 30 September, after which we’ll announce results for the 15 months to that date.

Through our August announcement and the release of our results to September (which we expect to occur in mid November), investors will be presented with all the information necessary to make meaningful like-for-like comparisons of financial results in a timely manner.

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In February Elders announced suspension of the interim dividend after recording a loss for the six months to December. At the time the company stated that the restoration of dividend payment was a high priority. What is the outlook for payment of a final dividend?

CEO Malcolm Jackman
As our Chairman has stated, the resumption of dividends remains a high priority. We have a solid core of loyal shareholders and we recognise the importance of dividend income in their investment calculations.

However, the interim dividend was suspended due to the over-riding need to strengthen our balance sheet. The decision on the 2009 final dividend will be made in November after directors have had the opportunity to consider the accounts to 30 September. This is later than in previous years due to the change in balance date from 30 June to 30 September.

Any decision to reinstate the dividend will be made by the board after taking into account our success in strengthening the balance sheet and the terms of the new facilities we agree.

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Thank you Malcolm and Mark.

For more information about Elders, please visit www.elders.com.au or call Don Murchland on (+61 8) 8425 4617

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