



Perceptions in A Changing Environment

Presented by Mike Guerin
29th July 2008

Elders

Presentation Outline

- Agribusiness Outlook
- Grain - my observations
- Elders - responding to our clients

The Elders logo is positioned on a red ribbon that curves from the right side of the slide. The ribbon has a textured, grid-like pattern. The word "Elders" is written in a white, cursive font on the ribbon.

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Agribusiness Outlook

...with a strong national presence

Agriculture is a substantial sector...

The agriculture farm sector accounts for:

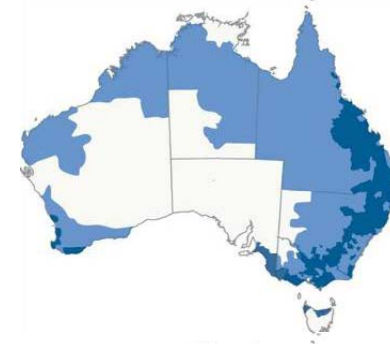
- **GDP** - 3% of gross domestic product
- **Employment**: 3.5% of total employment - at 355k
- **Exports** value of \$28 billion, which accounts for:
 - * 2/3rd of gross value of farm production
 - * 20-25% of the value of Merchandise exports

Gross value of Farm Production was \$40bn in 2008 (2009 \$46bn)

Grains



Beef



Sheep



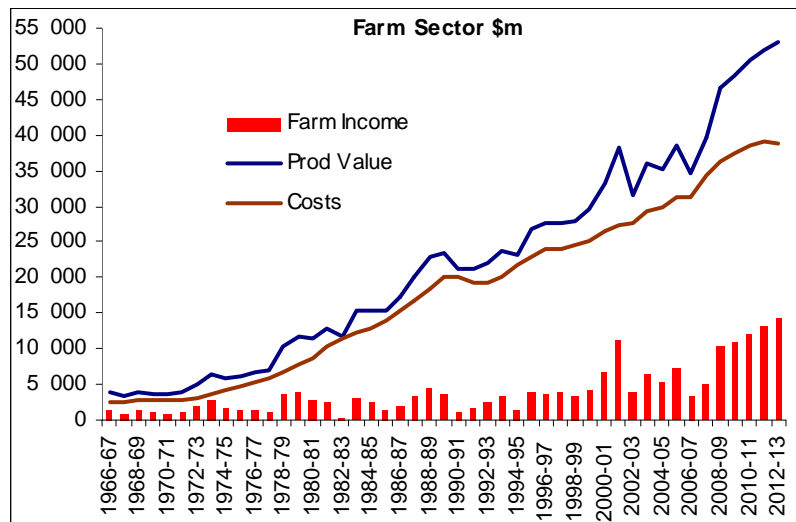
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Agribusiness Outlook

Farmers Terms of Trade

Declining terms of trade (net farm income) has been a recent feature of Australian agriculture (2002-2008).

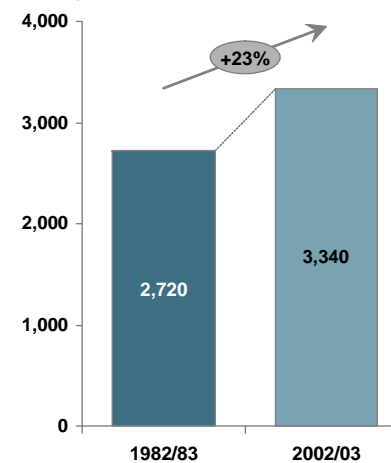
However, with the strong global commodity outlook, we should see an improved outlook (2009-2013).



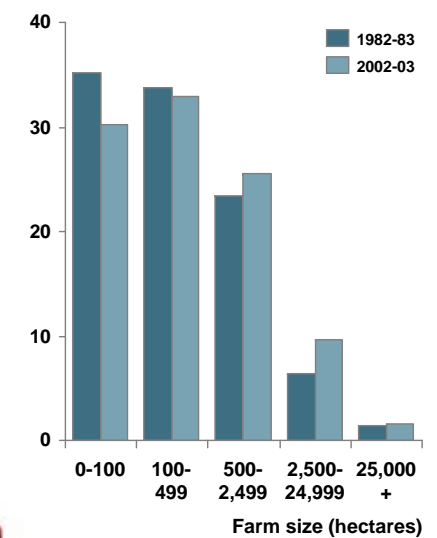
Farms continue to consolidate

- Farm land size is increasing
- Fewer small and more large farms
- Larger farms tend to be more profitable

Average farm size (hectares)



% of total farms



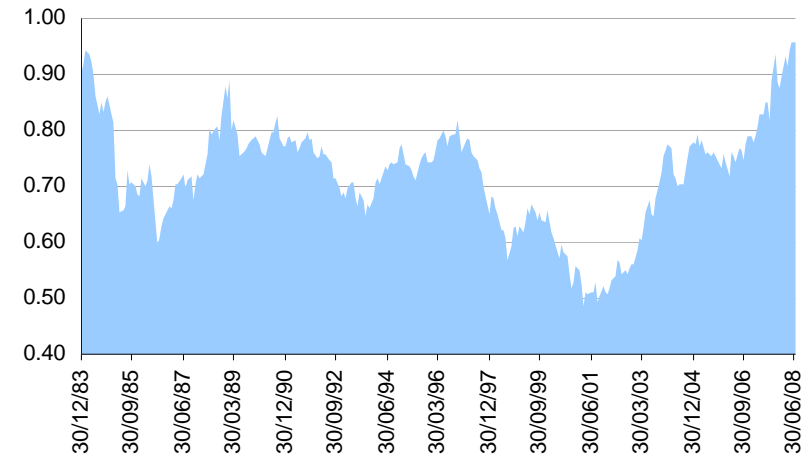
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Agribusiness Outlook

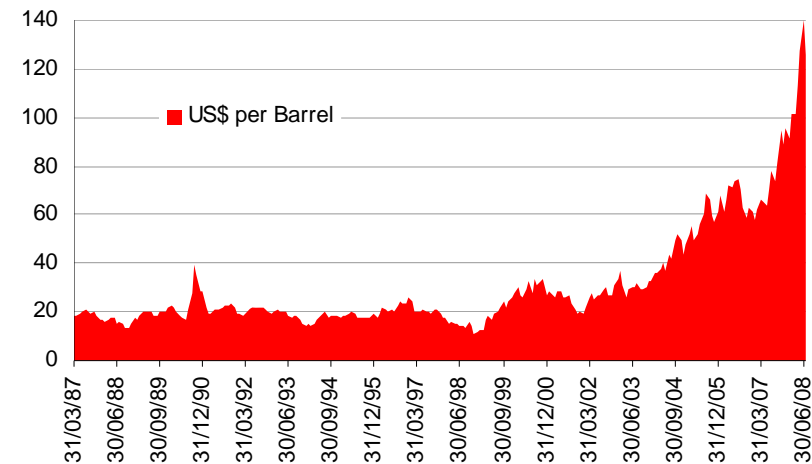
Future Challenges.... several new ones emerging

- Trade Barriers, Tariffs, Subsidies [WTO Conference in Geneva from 21 July - representatives from >30 countries - USA, Europe, China, India, Brazil, etc]
- AUD/USD at 26-year high on 0.98 on 15th July 2008
- Rising Input Prices - Fuel, Chemicals, Fertiliser
- Greenhouse Gases / Carbon Trading
- Water Resources - incl. Murray Darling [40% of Agri Prod]
- Labour - Resources sector + Ageing population
- Security of Supply for Global Customers - Guaranteed Base

AUD / USD Exchange Rate



Crude Oil - Nymex WTI Futures



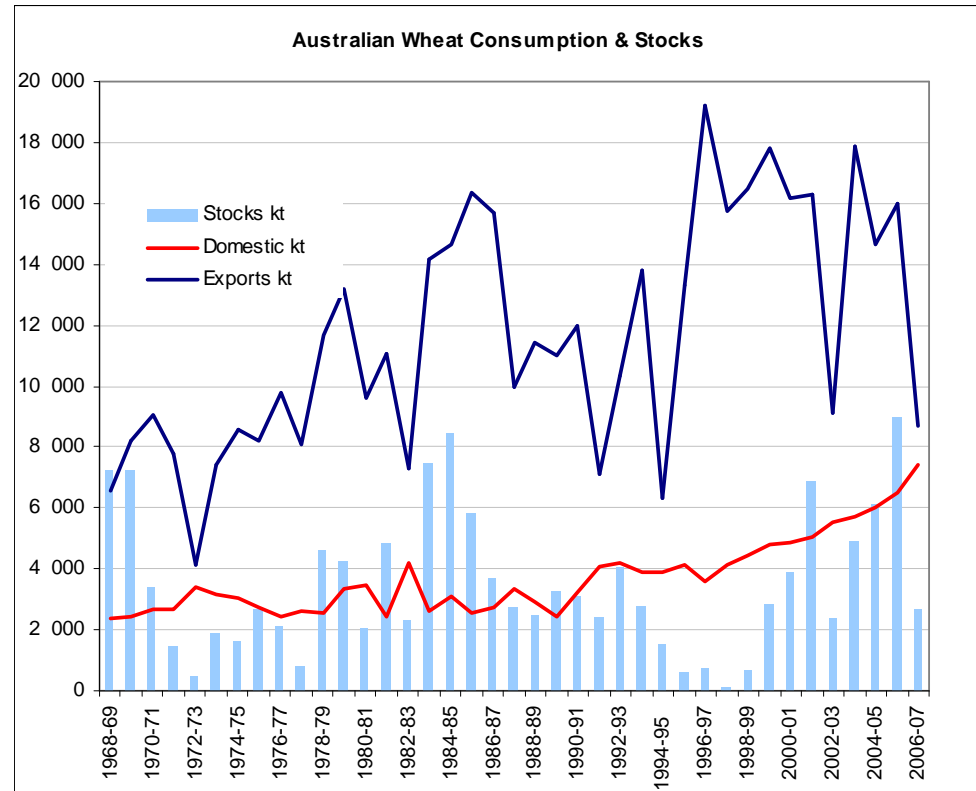
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Market Environment

- Low Stocks
- Seasonal impacts on production
- Volatile Prices
- Worlds new 'middle class'

Market Needs

- Reliable Supplier
- Meet customers specifications



Agricultural commodity outlook is ... **positive** ... over the short to medium term

Demand Drivers are significantly influencing prices .. will continue into the future .. impact of demand drivers on prices being:

- ↑ **Population** growth – population expected to increase from 6.7 billion to > 9 billion by 2050
- ↑ Growth in **disposable income** and **dietary changes** – growth especially in China and India
- ↑ **Land constraint** – arable land up 10% from 1961 to 1997 but has been declining since
- ↑ **Trade reform** and reduced domestic subsidies
- ↑ Policies supporting **biofuel** production - note: this could rapidly change with pressure on escalating food prices.
- ↑ Increased **input costs**, especially if world crude prices remain strong
- ↑ **Substitution for farm land** for urbanisation
- ↑ **Environmental** concerns (climate change, droughts, floods) and water supply constraints
- ↓ **Technological** advances
- ↓ Improvements in agricultural **productivity**

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Grain Market Environment

- Prices at Historical Highs
- Inventories at historical lows in most soft commodities
- Global demand robust, driven by both food and energy needs
- Increased global production in 2008 / 2009
- Increased Australian grain production in 2008 / 2009
- De-regulated environment in Australia
- Grain grower requires increasing access to finance, cash flow and credit facilities

Key Messages Post Deregulation

- What is Strategic advantage for Australian Grains
- What are our core competencies
- What is our value proposition
- What are the risks
- Are we globally relevant

Positioning Australian Grain industry for future growth – Innovation, Efficient

The logo for Elders, featuring the word "Elders" in a white, cursive script font, set against a red ribbon-like background that is part of a larger red decorative footer.

A Capital Question

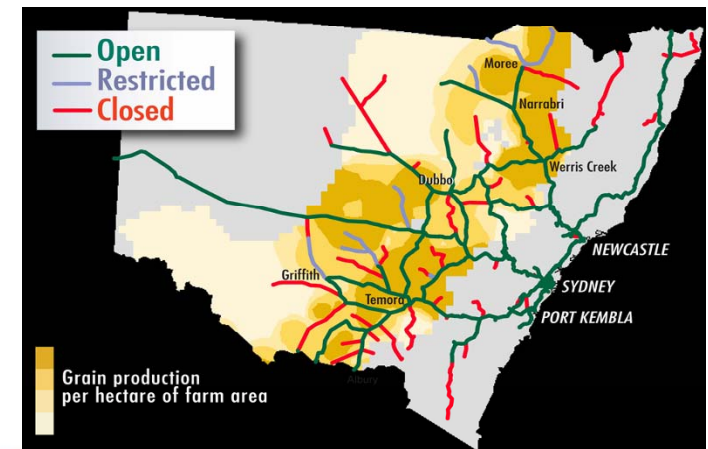
- Pooling has served industry well
- In de-regulated markets will this model suffice ?
- Finance Product Innovation
- De-regulated markets are principally 'cash' markets
- Company Resources & Scale

Grain - Observations

Efficient Supply Chains

- Australian Grain Industry has 'increased' level of control over farm to port cost base.
- Australian Grain Industry has no level of control over global grain or shipping markets.
- Backward integration from International sales function
 - Drive out unnecessary costs.
- Manage capital responsibly in process.
- Competition from competing sectors for available infrastructure
- Meet service level of customers.

Reduced Rail Access in Grain Regions



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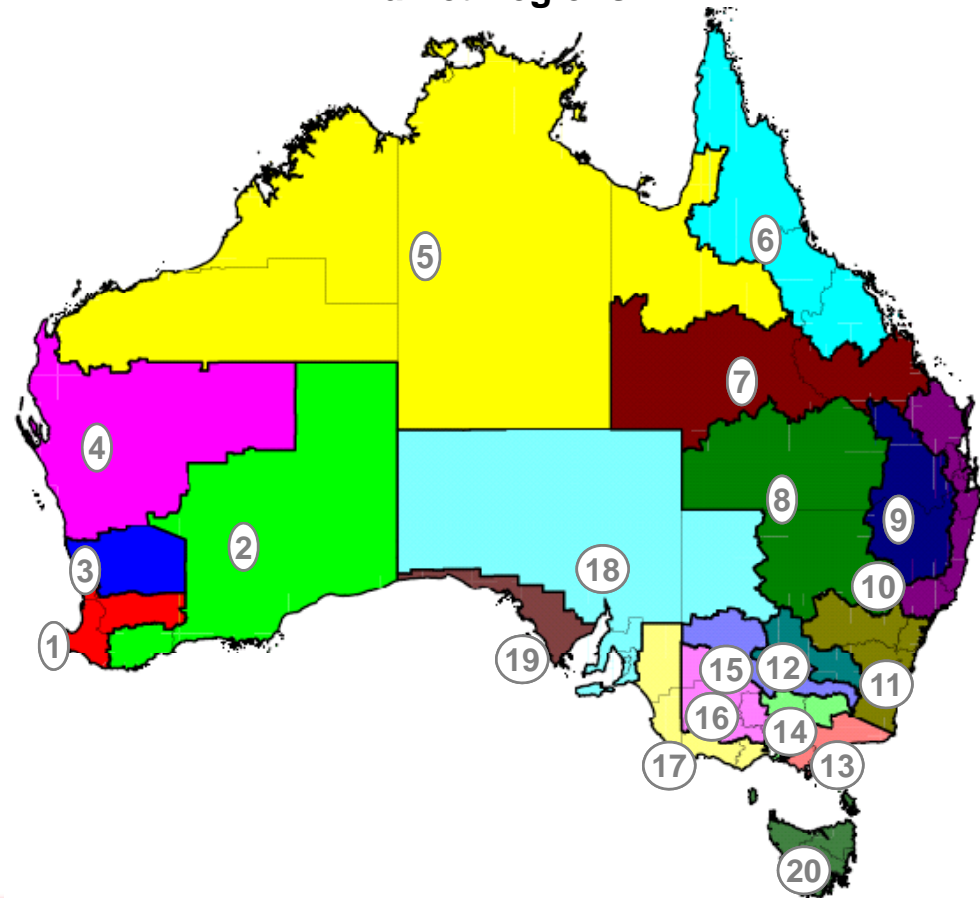
A Future Model

- Combine
 - * Elders' domestic footprint and grower relationships, with
 - * Toepfer's global leading Agribusiness operations
- Capital resources to provide growers cash selling options – daily, nationally
- Global risk management capability – to shield growers from volatile risk with risk management strategies
- Trusted / Respected business partner for growers in Australia and global customers

The Elders logo is displayed in white, italicized script on a red ribbon-like background. The ribbon is part of a larger red graphic at the bottom of the slide that features a grid pattern on the left and a bokeh pattern on the right.

- The rural market has changed and we need to position our decision making closer to where the client relationship is managed
- Aimed at creating positions that are closer to our clients; Live in the local community and empowered with decision making authority
- We'll see the creation of more than 100 new and exciting roles

Market Regions





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