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Open Briefing – Futuris Chairman & CEO on Revised Guidance

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Futuris Corporation Limited today announced revised earnings guidance for the year to 30 June 2008, indicating it now expects underlying net profit to shareholders to range between \$80 million and \$85 million, which compares with market consensus of \$97.6 million and last year's corresponding result of \$100.7 million. In May you projected full-year underlying profit of approximately \$100 million. Can you provide an overview of the factors driving earnings below your earlier expectations?

CEO Les Wozniczka

Essentially it is due to slower than anticipated MIS sales, the expectation of a negative contribution from Aaco and higher interest expense. In particular, ITC's sales of MIS product to date are below that recorded at the same point last year and it is likely that EBIT contributed by ITC will be lower than we expected as a result.

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Futuris paid an unchanged fully franked interim dividend of 4 cents per share. Last year Futuris paid a final dividend of 5.5 cents. What are the implications of the earnings guidance downgrade for this year's final dividend?

Chairman Stephen Gerlach

The revised earnings guidance represents an underlying EPS of approximately 10.6 to 11.2 cents. The dividend decision will be made by the Board after consideration of the results recorded for the year, but the revised guidance issued today is not expected to present any implications for the 2008 final dividend.

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What do the forecast lower MIS sales mean for ITC earnings? Is ITC's EBIT contribution for 2008 expected to fall as a result? What is the expected impact on 2009?

CEO Les Wozniczka

There will be a lower contribution from MIS sales to the ITC profit and loss. ITC takes up MIS income as plantation establishment income over a three year period, and the impact of this year's reduction will be offset slightly by the recognition of approximately 50 percent of the higher 2007 MIS sales.

EBIT contributed by ITC in 2008 is still forecast to approximate the \$57 million recorded in the previous year, reflecting the contribution of higher accrued income arising from the negotiation of higher woodchip prices and from the impact of the annual land revaluation and SGARA calculations. The contribution from land revaluation and SGARA is forecast to rise from approximately \$17 million to approximately \$22 million.

Once the final MIS sales result is known, we will be in a position to analyse any flow-on implications for the company's 2009 earnings. As a guide, establishment income from the 2008 MIS project is expected to be taken up in the ratio of 30 percent in year one, 60 percent in year two and 10 percent in year three.

While MIS sales will continue to be an important revenue item, ITC has been working for some time to broaden its product range and services to institutional and corporate investors. We expect to announce some major achievements in this regard which will have the effect of delivering a better balanced business of forestry and plantation services.

With cash flows from harvesting starting to build, we expect to have greater financial capacity to develop a broader business.

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Some other MIS providers have reported increased MIS sales. Why are ITC's results lagging that achieved last year?

CEO Les Wozniczka

It's premature to make any conclusions or analysis of the MIS sales result prior to completion of the sales period.

This year's MIS product from ITC is more highly rated than in previous years and is one of the most highly rated in the market. Feedback we have had is that notwithstanding our ratings, this year has seen increased competition from "low-doc" and "no-doc" packages. Sales can also be highly sensitive to commissions paid. ITC has a conservative policy in relation to the financing of MIS investment, with the result that it has had minimal defaults from investors/borrowers. ITC has not moved away from rigorous application of its policy.

We will be in a better position to analyse sales results and conduct the necessary debriefing with distribution agents and others involved in the sales process after close of the sales period.

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In the first half of 2008 your core Elders Rural Services business made an underlying EBIT contribution of \$23.0 million, which was 37 percent of total EBIT and up 70 percent, in spite of adverse seasonal conditions. Could you provide an update on Elders' current operating performance and the influence of recent seasonal factors?

CEO Les Wozniczka

Elders Rural Services is performing well. The business is on track to record its best financial results yet, even though the influence of seasonal conditions on the result has been mixed.

First-half results were drought affected, but most winter cropping regions had a good start which has translated into good sales of merchandise products such as seed, fertiliser and agricultural chemicals. Conditions outside the cropping regions and in irrigation dependent activities have not been as favourable, and livestock related activities are making a lower contribution this year, as was forecast. Downstream operations in wool and feedlots are also recording lower results due to lower volumes flowing from the previous year's drought conditions.

Grain, Real Estate and Financial Services distribution are all generating increased contributions compared with last year. Overall we expect a good result from Elders.

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You recently appointed a new Managing Director, Mike Guerin, to Elders Rural Services. What are the new management's priorities? How do you envisage the strategy for the business evolving?

CEO Les Wozniczka

Mike has set some very clear priorities: to lift Elders' relevance and business with its client base; to improve its financial performance and returns and to better capture the great potential that exists in Elders' brand, its domestic distribution capability and international reach.

The starting point for the achievement of those goals is a reinvestment in Elders traditional, core network operations.

Since joining the business in March, Mike has taken a good look at the business. The strategic review he, and his team, have just completed has not only confirmed the strength and value of Elders but also identified that there is achievable upside in both its financial and sales performance.

The review also showed that the key to delivering this potential is Elders' core businesses. Shareholders can expect to see an over-riding emphasis on ensuring Elders is equipped, organised and focused on helping its front-line staff perform to the highest level.

Elders took the first step in this process last week by shifting management decision-making closer to its clients by moving network management from five

state offices to 20 regions. New appointments made by Mike will bring new capabilities in logistics and marketing to support branch operations.

As a number of the new management recruits are still due to commence, the detail of the roadmap is yet to be completed. However, the results of the review and strategy formulation process to date have been exciting and we're looking forward to sharing more about Elders' progress and outlook as developments permit.

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At the 2007 AGM Futuris advised its intention to divest its 43 percent shareholding in AAco, its largest equity accounted investment. Following the termination of the AAco sale process what is your strategy in respect of your non-core and non-agricultural assets, and for AAco in particular?

Chairman Stephen Gerlach

The Board is resolved that the divestment of non-core assets and the re-investment in core businesses which are growing and capable of generating better financial returns are the top strategic priorities for Futuris.

The pace at which this process occurs is influenced by the time at which value realisation opportunities occur, but with this proviso, we are targeting an acceleration of the transition process within the new financial year.

In a practical sense, this means that the company's structure can be expected to become simpler and more capital will be allocated to our core businesses of Elders Rural Services, Elders Financial Services and ITC.

Elders' reputation, client relationships, network and staff make it one of Australia's great enterprises. It is well positioned to be a beneficiary of the rising value of agricultural produce and inputs, and the deregulation of bulk wheat exports.

Our challenge is to ensure that this potential is fully translated into value gains for Futuris shareholders. For this to occur, debt reduction and the divestment of non-core and non-performing assets will need to be progressed as expediently as process and shareholder value considerations permit, and the Board is committed to achieving that objective.

In respect of AAco specifically, our position has not changed from that advised previously. We have terminated the tender for our shares as no executable offer was in prospect. Should other parties wish to make a realistic offer for our shareholding in AAco then we would consider the offer on its merits and, if acceptable, take it forward.

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At 31 December 2007 you had net debt of \$731.9 million and gearing was 36 percent. What is the outlook for gearing at 30 June and how does that fit within your preferred balance sheet parameters? What is the maturity profile of your borrowings?

CEO Les Wozniczka

Net debt at 30 June will probably be in the order of \$600 million, which represents gearing of approximately 32 percent. It's a higher gearing and debt level than is customary for Futuris at this point of the year, with the increase being due to: the higher debt levels at the start of the year; the cash outflows to redeem the convertible notes which matured on 31 December; and the generally tighter trading terms and working capital requirements that have accompanied tighter supply and higher prices of key agricultural inputs and outputs.

We have comfortable headroom within our existing facilities which are overwhelmingly long-dated. We do not have any significant refinancing requirements in the near term.

The company has total finance facilities of \$1,300 million. Of that, \$250 million is a rolling 364 day evergreen facility and will shortly be extended from December 2008 to June 2009. A further \$100 million under the same facility has already been extended to that date. Of the balance, only a USPP tranche of \$50 million is due for repayment prior to the 2010 financial year.

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Do you expect that Futuris will need to issue equity to reduce debt and fund ongoing requirements?

CEO Les Wozniczka

We do not need to, nor intend to, issue equity to provide capital for existing operations or for the purpose of debt reduction other than our standing dividend reinvestment programme.

We have the capacity to make significant progress in debt reduction without issuing equity. Given appropriate seasonal conditions, Elders Rural Services is a cash generator. ITC's capital requirements are expected to be lower as a result of the sale and leaseback of land and a lower new plantation requirement. As the Chairman has said, we are also targeting additional capital inflows from the sale of non-core assets during the course of the year.

We are continually being presented with investment opportunities. With proceeds of asset sales to be directed to debt reduction and funding increases in working capital requirements, new investments will be assessed on the basis that equity funding will be required. In current market conditions, this will require compelling opportunities within the core business units.

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Your revised guidance indicated that underlying profit to shareholders was expected to increase from the current year range of \$80 million to \$85 million

to a range of \$85 million to \$90 million in 2009. Can you provide an overview of the factors expected to drive the increase?

CEO Les Wozniczka

At this stage, Elders Rural Services and reduced interest will be the principal sources of earnings growth in 2009.

We are expecting ongoing financial improvement from Elders Rural Services as wool and livestock recover from drought affected activity levels. Gains will also arise from the business improvement initiatives underway within Elders under the new management, but these are expected to be largely offset by implementation costs in 2009, with benefits apparent in subsequent years.

EBIT generated by Elders Financial Services is expected to be slightly lower than in 2008 as growth targets for the bank become more modest in line with financial market conditions and lower insurance returns. ITC earnings are looking lower as a result of the lower MIS sales.

Interest expense is forecast to fall with debt reduction and the rationalisation of non-core assets that has been highlighted by the Chairman. Naturally, sale of non-core or non-performing assets will reduce EBIT contribution, but this will be offset to varying degrees by interest savings.

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The Federal Parliament has passed legislation deregulating the bulk export of wheat. What are your plans for this area of business and how will you deal with the working capital demands that grain acquisition and trading bring?

CEO Les Wozniczka

Elders will be applying for accreditation to export through its joint venture with Toepfer International. The Elders Toepfer Grain joint venture proved its effectiveness in the newly deregulated South Australian barley market, where it secured 15 percent of crop volumes in year one.

From our perspective, the joint venture worked exceptionally well. Through its combination of Elders' client relationships and reach, Toepfers' international grain presence and expertise and its working capital advantages, we think it is the ideal vehicle for the new bulk wheat market.

We expect the first year or two after deregulation to be extremely competitive. Our target market share is around 15 percent in three to five years. The rate at which we will move to that target will depend on the level of competition and the profit opportunities available to us. The financing of our involvement in the bulk wheat export market will be done primarily through the joint venture with our working capital being directed to aggregation activity, financing crop input business and capital for Elders Financial Services.

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In April the new Federal Government terminated an agreement with OPEL to provide \$958 million to construct a rural and regional broadband network. What will be the financial impact of the OPEL termination on this year's results? What does the decision mean for your plans to establish a telecommunications division?

CEO Les Wozniczka

As we advised previously, a total charge of \$24 million before tax is anticipated as a non-recurring item in the 2008 accounts. This figure includes the OPEL start-up and bid costs of \$9 million expensed as a non-recurring item in the 2008 first half results and a further \$15 million as a result of the termination for expenditure from 1 January and redundancies.

The decision has meant that the company will not pursue a strategy of building a rural and regional focused telecommunications operating division. OPEL was the cornerstone of the strategy, and the withdrawal of public funding means the business case for the strategy is no longer viable.

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Thank you Les.

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

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