

ASX Release

02 July 2013

**TFS CORPORATION LTD ("TFS")**

**MARKET UPDATE**

**Financial Product Sales**

TFS is pleased to advise that total sales of 1,614 hectares (BC and MIS) were achieved for FY13 an increase of 132% on FY12 (693 hectares). The sales result was an excellent outcome given the business interruptions caused by some minority shareholders in the first half of FY13.

**Earnings Outlook**

As advised at the end of May 2013, the Company reported that it remained on track to achieve a full year cash EBITDA of at least \$35m. The financial impact of the above sales ensures the Company will be in a position to achieve at least this result.

**First Commercial Harvest**

TFS continues to prepare itself for the commencement of the first commercial sandalwood harvest during the first half of FY14. This significant milestone will provide the market with proof of concept and the Board remains confident that the pricing achieved by investors for their timber will significantly exceed the original prospectus forecast. The Board expects that investors will receive a positive investment return notwithstanding the poor overall quality and survival rate of this first plantation. The quality and survival rates in all subsequent plantations are vastly superior to the initial plantation which consists of only 140 hectares out of an overall estate of approximately 7,600 hectares.

In preparation for the first harvest, TFS purchased a small private sandalwood plantation which was used as a harvest experiment. During this trial the R&D team in conjunction with operations established its harvesting practices. In addition, this harvest provided valuable information regarding oil bearing heartwood for 15 year old sandalwood. This operational research and ongoing trial work are continually assisting TFS in pursuing the best possible outcomes for the growers.

Apart from relying on the technical skills of our people in ensuring the harvest is carried out expeditiously, extensive time has been spent in researching the most suitable equipment to assist with the mechanical aspects of the harvest. Approximately \$600k in CAPEX will be invested in equipment for use in the harvest and primary processing centre, which will be located in Kununurra, Western Australia.

**Strategic Review Update**

As previously announced, the Board initiated a strategic review which, with the assistance of global investment bank Moelis & Company, has included an assessment of the Company's operations, capital management initiatives and other corporate options.

The primary outcome of the review has been to adopt a more strategic focus on growing MIS and BC product sales and increasing TFS' exposure to directly owned plantation assets.

### *Growing MIS and BC product sales*

To achieve the first objective, the Board has over the last 9 months deliberately expanded its sales team across Australia and further developed its international distribution channels for BC product. The Board expects that these important initiatives will assist in improving product sales performance in FY14 and beyond.

TFS has also been successful in allowing high net worth investors who would have previously invested modest amounts in MIS products to invest larger volumes in a modified BC-styled offering.

### *Increased exposure to directly owned plantation assets*

The Board also recognises the very positive long term market fundamentals for Indian sandalwood. Given TFS' enhanced cash position arising from the partial sale of its loan book and increased sales in FY13, TFS will be looking to increase its direct ownership of plantation assets. The Board believes that it can realise greatest value for shareholders through exposure to an increased share of the underlying Indian sandalwood resource.

As a consequence despite the counterparty's wish to have further time to settle the transaction, the Board has elected to terminate a contract for 580 hectares of wholesale investment product which is currently recognised on TFS' balance sheet as a current receivable. TFS intends to recognise this 12 month old plantation asset as part of its owned plantations. This will result in an increase in TFS' direct and indirect ownership of plantation assets to approximately 2,300 hectares and a substantial uplift in TFS' net asset position as at 30 June 2013 of approximately \$20m (unaudited post tax).

### *Other initiatives*

The Board has also taken a number of other positive steps to enhance shareholder value since announcing the strategic review in August 2012, which have included the following:

<b>Strategic Initiative</b>	<b>Outcomes Achieved to Date</b>
<b>Capital Management</b>	<ul style="list-style-type: none"><li>▪ Effective recycling of capital achieved through partial sale of MIS Grower loans in May 2013 realising gross cash proceeds of \$22.4m as announced 1 May 2013.</li><li>▪ Potential for additional proceeds to be realised through further sales of the Arwon loan book to either the same purchaser, or other interested parties.</li><li>▪ The Board continues to monitor select capital management initiatives.</li></ul>
<b>Balance Sheet Management</b>	<ul style="list-style-type: none"><li>▪ Foreclosure action has been commenced in relation to a portfolio of MIS Grower loans with an outstanding principal amount of \$6.6m.</li><li>▪ As part of the foreclosure action, the Board will seek to obtain legal title to the MIS woodlot which is expected to result in a one-off asset revaluation gain.</li></ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"><li>▪ A Board endorsed Independent Chairman search has commenced with an appointment expected shortly.</li></ul>
<b>Enhanced Market Disclosures</b>	<ul style="list-style-type: none"><li>▪ Clearer, more concise and more consistent disclosures have been made to the market to assist in understanding TFS' assets and operations.</li></ul>

The Board is delighted that the strategic review has proven to be a dynamic exercise with various initiatives being identified and successfully implemented.

The Board will continue to evaluate value maximising initiatives for shareholders on an ongoing basis.

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## **ABOUT TFS**

TFS Corporation Ltd (ASX: TFC) is an owner and manager of Indian sandalwood plantations in northern Australia. As part of its vision to be a vertically integrated producer of finished sandalwood products, TFS owns a significant proportion of the plantations in its own right and in 2008 acquired Mount Romance Australia (Mount Romance), the Albany-based sandalwood processor and oil distributor.

TFS was founded in 1997 to exploit the success of government trials into the plantation growth of Indian sandalwood in the Ord River Irrigation Area (ORIA) of north-east Western Australia.

TFS's first planting was in 1999 and it now manages the largest area of Indian sandalwood plantations in the world, with approximately 7,600 hectares planted of which TFS owns directly and indirectly approximately 2,300 hectares. TFS plantations are managed on behalf of both retail and institutional investors.

TFS will be commencing the first commercial harvest of its Indian sandalwood plantations in 2013.

The company listed on the Australian Stock Exchange in December 2004.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business. All plantations are grown on land that has previously been used for agricultural or horticultural production. As the first ORIA land owner to recycle its water, TFS was the winner of the 2006 State Regional Water Award. In 2011 TFS subsidiary Mount Romance was awarded the Platinum Award by the Water Corporation for its Water Efficiency Management Plan (WEMP).

TFS is ranked as an industry leader in ethical and sustainable practices by Oekom Research, a leading international ratings agency.

In 2009, TFS entered the prestigious Forbes Asia Pacific's 'Best Under a Billion', which recognises the Top 200 companies from more than 25,326 publicly-listed firms in the Asia/Pacific region with revenue of less than US\$1 billion.

## **ABOUT INDIAN SANDALWOOD**

Indian sandalwood has a history as a tradeable commodity spanning thousands of years, but is now endangered due to the illegal harvest of wild trees throughout the world. As a result, Indian sandalwood is the world's most expensive tropical hardwood and continues to increase in price each year. The price of its heartwood has risen at a compounded rate of over 16.7% per annum since 1990.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, Indian consumer products and for medicinal purposes (Ayurvedic and Chinese medicine) and the wood is used for high quality carvings and artefacts and religious worship in the Hindu and Buddhist faiths.

Indian sandalwood has a well entrenched market throughout the world, particularly in India and China, two of the fastest growing economies in the world.