



ANNUAL GENERAL MEETING – 20 NOVEMBER 2008

EXECUTIVE CHAIRMAN'S ADDRESS

The Past Year – FY 08

The past year has seen a continuation of strong and controlled growth for TFS. Our financial scorecard for the 08 year was highlighted by:

- 60% increase in “cash” earnings to \$23m;
- 37 % increase in “cash” earnings per share following a \$20m capital raising in July 07;
- 18 % increase in our full year dividend to 4c per share fully franked;
- 66 % increase in net tangible assets per share to 60.6c per share; and
- no net debt at financial year end.

Vertical Integration Vision Achieved

Something of which we are very proud at TFS is that in our short time on the ASX we have always delivered on our forward looking statements and forecasts. Post balance date we have delivered on what has been our most repeated statement since listing, being our vision to become a vertically integrated sandalwood products company. This vision was accomplished in August through the acquisition of sandalwood processor Mt Romance (MRA). The merger of

TFS and MRA combines the world's largest plantation owner and grower of Indian sandalwood (*santalum album*) with the world's largest processor and distributor of Australian sandalwood (*santalum spicatum*). TFS now has a "soil to oil" operation that is supplying high quality Australian sandalwood oil to the global fine fragrance brands. These brands will in the next 3-5 years be taking delivery of high quality Indian sandalwood oil from our Kununurra based plantations.

Not only does MRA deliver processing technology skill and experience, and a blue chip customer base it has a very strong reputation for its corporate social responsibility which is shared by TFS. It was particularly pleasing to see this approach recently recognised by the prime rating awarded by OEKOM Research to TFS as an industry leader in corporate social responsibility.

Outlook for Sandalwood Market

The underlying market for our end products continues to be highly supportive. Although our industry is not immune from the direct and indirect affects of the global credit crisis, the prevailing prices for both *santalum album* oil and *santalum spicatum* oil remain strong. This is due to diminishing supply from natural stands, a continuing strong demand for sandalwood products in India, and the growing preference for consumers globally for sustainable natural raw materials as ingredients in fragrances and cosmetics. Increased demand from China is also anticipated once larger volumes of Indian sandalwood are available from our Kununurra plantations particularly in the sandalwood bi products market.

Land Bank

Over the past year the company has built a significant land bank of over 4,000 hectares which, is sufficient to supply our requirements for the next 3 - 4 years depending of course on the growth of our MIS business. However the company continues to actively search and identify suitable land for its future requirements and is confident that these can be met over the next 5 – 10 years from the Kimberley region before we start to replant on our current land holdings. We are

also pleased with the West Australian State Government's commitment to Ord River Stage 2 and believe it may assist TFS to achieve this objective.

Oil Quality

Further trial testing of Kununurra grown Indian sandalwood during the year by Albert Vieille once again confirmed the quality of our plantation grown santalum album oil. The oil met the quality required by fine fragrance companies under ISO international standards. With the skills, technology, quality control systems and processing experience obtained through the acquisition of Mt Romance (a 5 year supplier to the French fine fragrance brands) we are confident that TFS will have a smooth transition into producing high grade quality santalum album oil for the fine fragrance industry when our Kununurra plantations come on stream in the next 3 – 5 years.

The offtake agreement for our Kununurra album oil announced in February with leading global natural beauty and body care house Lush Cosmetics is clear evidence of the industry's recognition of our capacity to produce and deliver high grade quality album oil.

Outlook for FY 09

I turn now to the outlook for the year ahead.

As stated on the occasion of our full year results announcement in August, it is our expectation that product sales in the current year will amount to at least 900 hectares, an increase of over 10% on FY 08. We also expect our recurring fee revenue to increase as the annual fees on larger projects begin to flow through.

Despite the deterioration on the Australian stock market and a subdued outlook for the Australian economy in general, we are confident that the work we have put into increasing our penetration amongst the financial planning community will result in increased market share for and sales of TFS's Indian Sandalwood MIS product in FY 09. This confidence stems from the fact that only forestry MIS

investments will be eligible for tax deductibility in 09, and TFS is already experiencing a sharp lift in interest from financial advisers and planners who have not previously recommended TFS Indian sandalwood projects to their clients. We currently estimate that at least 330 financial advisers will be recommending the FY 09 TFS Indian sandalwood project to their client base. This represents a 50% increase on FY 08. This growth is in line with our increased penetration of the major eastern states financial dealer groups over the past two years, and still leaves us with significant growth opportunities going forward with new dealer groups.

Although the perception in some quarters is that MIS investment is largely driven by investors who are looking for tax relief from equity market generated capital gains this is not the experience we have gathered during the past ten years. In FY 08 we estimate that less than 15% of our business was attributable to equity market related capital gains.

The Commonwealth Bank has extended and substantially increased the facility available for investors in the TFS Indian sandalwood project from \$50m in FY 08 to \$100m in FY 09. With interest rates likely to fall further in FY 09 we expect this funding facility will be attractive to investors and further enhance demand for our MIS product.

Although it is early days we expect to see demand increasing for investments in established Indian sandalwood plantations via the quite recently introduced secondary market for MIS forestry investments, together with growing interest from institutional and industry investors for direct investment in Indian sandalwood plantations. We expect that these non MIS investments will indicate in a transparent way the underlying value of Indian sandalwood as a commercial investment and distance Indian sandalwood from some of the unspectacular results achieved by other MIS products in horticulture and general forestry.

As with prior years, our earnings will be severely skewed towards the second six months of the financial year owing to the traditional preponderance of MIS-

related sales in the half to 30 June. Based on a sales projection of at least 900 hectares, and a forecast contribution to EBITDA of at least \$5m from Mt Romance we anticipate earnings growth of at least 15% in FY 09, with the company having no net debt by year end. That will place us in a strong position to fund further strategic acquisitions from our balance sheet.

On this basis we also expect that the dividend will at least be maintained.

Before closing I would like to acknowledge the efforts of our hard-working staff and my fellow board members in what has been a critical year in establishing the foundations for sustained growth over the longer term, and their work in transforming the company to a vertically integrated sandalwood products company.