ASX Release

TFS Builds Positive Momentum into 2H10

Highlights

- 1H10 NPAT of $1.0m with the non-cash components being impacted by exchange rate movements as compared with 1H09
- 1H10 dividend declared at 1.25 cps in line with 1H09
- On track to complete 2nd round sales of non-MIS Wholesale investment project – Beyond Carbon and deliver ~50% of new product cash sales in FY10.
- Equity raising of $31.5m maintains conservative gearing
- MRA products making progress in non-traditional markets expecting a strong 2H10 with full year earnings growth above 10%
- MIS business is in a strong position to increase market share
- On track to achieve double-digit earnings growth and no net debt in FY10

TFS Executive Chairman Frank Wilson said the results are seasonally biased and skewed towards the second half, while the full year outlook remained strong.

"TFS has maintained good momentum and secure investor support despite the loss of confidence in the MIS market," Mr Wilson said.

"TFS will continue to grow market share this year given investor appetite for superior forestry products such as high value Indian Sandalwood," he said.

1H10 Results

TFS Corporation Ltd (TFS) (ASX: TFC) today announced a consolidated NPAT of $1.0m for the six months to 31 December 2009. This figure is down from the $8.5m reported in the previous corresponding period (pcp) in 2008, reflecting the impact of the exchange rate on the non-cash component of revenue which records the current value of TFS' sandalwood plantations in US dollars.

The reduction in non-cash revenue was offset to some degree by the rise in the recognition of deferred fees to $7.5m, up 44%. This reflects a rise in the level of annual fees being deferred in exchange for harvest proceeds, in accordance with the general rise in the size of the Sandalwood estate.

TFS has declared a dividend of 1.25 cents, in line with pcp, payable on 18th June 2010 and the record date is the 4th June, 2010.

Removing the non-cash items, TFS generated a Cash Result of -$4.4m as compared with -$2.6m for the pcp. As TFS results are typically skewed to the second half, the 1H10 result is not indicative of the potential full year outcome. The loss for the half reflected the off-season period for MIS sales, where only 12.2ha of Retail MIS product was sold in the period, and TFS' wholesale product sales are not expected until 2H10. The result also included the operations of MRA (Mt Romance Australia), which are also skewed to the June half.

ATO Product Rulings

The ATO product ruling for the 2010 Indian Sandalwood project is expected in the near term allowing for 900 ha. TFS is aiming to allocate approximately 500 ha to its retail project, with the balance of sales expected from TFS' wholesale product, Beyond Carbon (BC).

TFS has submitted an application to the ATO for a product ruling for a new project in 2010 to establish a Western Australian Sandalwood project (Santalum Spicatum). TFS will release further details to the market once the ATO product ruling has been received and the company's product disclosure statement (PDS) can be issued.

Operating revenues

Operating revenues included several elements reflecting the changes under the new policy implemented at FY09. Under these changes revenue recognised requires the inclusion of revenue from past sales on a work completed basis, the sale of ~12ha of MIS product sold, cash based recurring fee, revenue from the MRA business and interest on the grower financing operation.

Operating revenues were $14.7m, up 9.9% over the pcp and largely reflected the inclusion of the new wholesale product and increased income from the grower loan book. Sales of 12.2ha of new business under the 2009 project, which continues to be in force until the 2010 project is launched, generated revenue of $0.8m, of which $0.7m is recognised in this period under the new revenue recognition policy. In the pcp there had been no new product sales.

Cash EBITDA was -$3.5m, down from -$1.7m for the pcp. This reflects the full amortisation of TFS' costs which have risen in accordance with the increased size of the plantation estate, yet revenues are biased toward the June half.

Operating Costs

Operating Costs (excluding D&A and interest / finance costs) reported at $18.5m, an increase of 22.6% over the pcp. Costs rises were driven by higher labour and direct forestry costs associated with a larger plantation estate; a significant increase in leasing costs associated with an additional 1,356 ha of land (leases commenced January 2009) and a rise in raw material costs at MRA reflecting an increase in sourcing private wood for the processing plant, which is more expensive than the bulk of the wood sourced from the FPC (Forest Products Commission).

Operating cash flow reported at -$26.6m compared with -$2.2m for the pcp. The drivers behind this outcome are two-fold;

- Receipts were approximately $18m lower due to the inclusion in the prior period, of externally financed sales through CBA and Arwon in FY08, where cash was actually received early in 1H09. In FY09, cash on such sales managed to be received by June 30, and thus were recorded in FY09.
- Payments to suppliers were approximately $15m higher, primarily reflecting major land preparation and infrastructure costs associated with developing the Kingston Rest (KR) property in readiness for future plantations.

Further expenditure on the irrigation project at KR of approximately $2.5m is allocated to Investing Cash Flow.

During the period, TFS raised $31.5m after transaction costs via an Institutional Placement and SPP. Subsequent to this equity raising, TFS paid down bank debt by $25.5m, leaving gross interest bearing debt at $40.5m, and net debt at $33.0m. Gearing remains a conservative 16.9% (ND/D+E), although slightly above 16.5% from the pcp.

Wholesale – Beyond Carbon

TFC's Wholesale business is reflected in the Beyond Carbon (BC) plantation project for institutional investors globally on a non-MIS basis. The BC initiative benefits TFS through sales channel diversification, superior early cash flow, and enables recycling of capital, as well as establishing firm bid for the developing secondary market.

The progress TFS has made since launching this new product has been significant and will fundamentally change the company's profile.

TFS has been encouraged by the reception of this new product initiative with a wide range of institutional interest across different regions. The feedback TFS has received to date indicates there is sustainable long-term appeal for a forestry investment product of this type.

The first round of BC sold 350 ha for a fee of $29.8m, with the cash to be received by April 2010 and this is on track to be delivered as previously announced.

The second round of ~500+ ha is also on track for June, with sales to be on cash basis

MRA

Mount Romance Australia (MRA) generated EBITDA of $1.2m for the 6 months to 31 December 2009, compared with $2.1m for the pcp. The result reflects the continuing challenges for the European perfume industry posed by the global economic downturn. The downturn has acted as a catalyst for the perfume industry to force manufacturers to hold more stock for longer, and made sales more volatile on a monthly basis. Further, competitiveness is being impacted by the significant exchange rate appreciation over calendar 2009. European markets are recovering slowly with inventories gradually being run down.

On a more positive note, recent sales to China and India from Spicatum oil and bi-products have been strong, leading to expectations that divisional earnings should grow on a like for like basis in FY10 by at least 10%.

MRA is also pivotal to TFS' ongoing R&D program, and MRA has indicated it is making steady progress toward oil content measurement techniques at the point of harvest, which is a key variable in delivering on TFS' MIS PDS assumptions.

EIG Joint Venture

Under the JV with Emirates Investment Group, designed to increase the global distribution of TFS' sandalwood products, and open up new value added markets, GNS has begun selling Sandalwood oil (Spicatum) in the MENA region. The feasibility study into the Pan Masala market is continuing and TFS is encouraged by the early indications of the market opportunity presenting itself.

Plantation Management

The trees in each of the plantations are growing well and recent plantation establishment programs have resulted in very high survival rates. Maintenance of the plantations is conducted in accordance with a detailed management plan. Previous sample testing of 8 year old trees indicates that heartwood development, and oil yields are in line with expectations.

Land Bank

TFS did not acquire or lease new property during the period. As at 31 December 2009, TFS has an Indian Sandalwood planted estate of approximately 2,550 ha with a further approximately 2,600 ha of suitable but unplanted land.

Due diligence on the 8,000 ha CPC property is continuing, with a further and separate 200+ ha parcel now under due diligence

TFS continues to actively pursue other land acquisition and / or lease opportunities in order to continue to grow its available land bank.

2010 Outlook & Forecast

TFS believes there is potential to benefit from improved global and domestic economic conditions in the near term. Although European and Nth American markets remain in a downturn, Asian and MENA markets have positive momentum, and TFS is encouraged by the opportunities opening up in these markets.

The global price for Indian Sandalwood remains stable, despite a depreciating USD during 1H10. Australian sandalwood USD prices have achieved positive gains compensating for the USD depreciation. It is anticipated that underlying prices should at least remain stable as economic conditions continue to improve

Despite the difficult trading conditions, MRA continues to prove its strategic value in terms of its R&D capability and the access to markets that TFS would otherwise have had to build itself. The alliance with EIG is in its early phase, but is already providing access to markets where TFS had no presence.

TFS' new non-MIS wholesale business, Beyond Carbon is making significant progress and is on track to fulfil our aim of achieving approximately 50% of new product cash sales in FY10.

TFS' traditional MIS business can be scaled back this year to make way for non-MIS investment and remove reliance on a single sales channel during subdued conditions across this sector. TFS' strong balance sheet and low gearing position the business for an increased market share this year. The recent Senate Inquiry into the sector was highly supportive of Forestry investment projects and this should support industry confidence. In the absence of further industry instability, TFS expects to meet its target of 50% of sales being sourced from its traditional market.

TFS reiterates its guidance of plantation sales of at least 1,025 ha in FY2010.

TFS advises that FY10 Cash NPAT growth is expected to be up 10% over FY09. Operating cash flow is expected to be strongly positive and the balance sheet in a healthy position as reflected by having no net debt by June 30.

Frank Wilson
Executive Chairman

Quentin Megson
Chief Financial Officer

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ABOUT TFS

TFS Corporation Ltd (ASX: TFC) is an owner and manager of Indian sandalwood plantations in the east Kimberley region of Western 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 plantation in the world, with 2,500 hectares planted in the ORIA. The majority of the TFS plantations are managed on behalf of investors in Managed Investment Schemes regulated by ASIC and the ATO.

TFS has a land bank of over 2,600 plantable hectares for future sandalwood plantings in the ORIA and at its Kingston Rest property 65 kilometres south of the ORIA.

The company listed on the Australian Stock Exchange in December 2004 and is currently capitalised at over $200 million.

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.

TFS was recently 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. Its heartwood currently trades for in excess of A$100,000 per tonne, having risen at a compounded rate of over 21% per annum over the past 17 years.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, incense sticks, and for medicinal purposes (aromatherapy and Chinese medicine) and the wood is used for high quality carvings.

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