

TFS CORPORATION LTD

FULL YEAR RESULTS PRESENTATION

30 June 2006

**Tom Cullity, Chief Executive Officer
Quentin Megson, Chief Financial Officer**

Key Messages



- 1) 2006 Financial Year Highlights
- 2) Outlook and Growth
- 3) Strategic Positioning

FY 2006 Highlights



1. 06 Full Year Results – Above Expectations

	FY 06 \$MLN	FY 05 \$MLN	% Change
Revenue	28.1	20.3	+38.4
EBITDA	17.4	14.8	+17.6
NPAT	11.9	9.6	+24.6
EPS	7.6	6.84	+10
DPS	2.1	2	+5
Net Assets	38.1	29.3	+30

- Strong sales with 326.5 hectares accepted, + 29% from 253 hectares FY 05
- NPAT less tree valuation and deferred income recognition approx \$8.1 million (up 42%)
- Increase in final Dividend to 1.4cents
- Dividend is fully franked



FY 2006 Highlights

2. Key Investment Ratios

Ratio's based on share price of \$0.35 Date 25th August

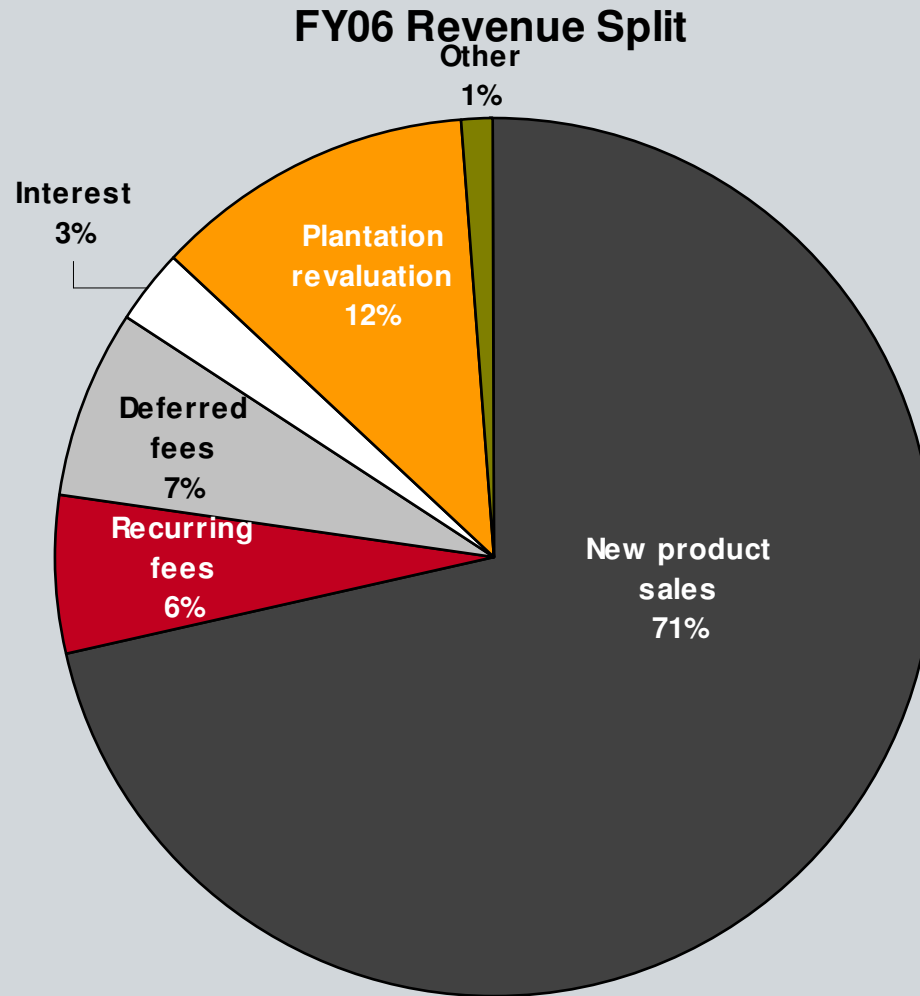
	FY 06	FY05	% CHANGE
EPS	7.6	6.9	+10
ROE	31.47%	32.77%	-3.9%
ROA	18.25	21.58	-15.4
Net debt /equity	21%	4%	N/A
NTA per share	24.14 c	14.74 c	+63.7

- 2006 was a year of significant internal growth
- 05 saw sales more than double to 253 hectares sales from 04 of 95 hectares
- Investment in plant and equipment, land, staff, systems were all bedded down during the year, bringing economies of scale to the business for the future

FY 2006 Highlights



3. Current Sources of Revenue



FY 2006 Highlights



4. Achievements

- Increase in market penetration in M.I.S on east coast
 - Development of comprehensive strategy to take the company to its initial Sandalwood production phase in 2012 and beyond
 - Purchase of 517 hectares of land near Kununurra for future plantings
 - Commencement of the securitisation process of part of our loan book.
 - Appointment of a preferred external financier for loans to growers
 - Commissioning of the First Water recycling Project in the Ord River Irrigation Area.
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Outlook and Growth



1. MIS
2. Cash flow 2007
3. Earnings outlook for TFS

1. Managed Investment Scheme Industry – M.I.S

- Regulatory uncertainty adversely affecting share price
 - Lead time to harvest is 14 years. MIS is appropriate for sandalwood
 - The Dutton Release in May 06 in relation to the proposed \$6,500 cap per hectare on deductibility in the first year stated *“in recognition that there are higher costs associated with boutique forestry schemes, such as sandalwood, an appropriate treatment for such schemes is to be considered in consultation”*.
 - Industry position is clear that a grower is carrying on business at common law – no need for the statutory concession on deductibility proposed by Treasury. This position is strongly supported by Forestry Minister Abetz
 - Common ground between industry and government
 - Prepayment rule extended from 12 months to 18 months
 - secondary markets to be established in MIS woodlots
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1. Managed Investment Scheme Industry –M.I.S

MEDIA RELEASE extracts - SENATOR THE HON. ERIC ABETZ ***Acting Minister for Agriculture, Fisheries and Forestry***

In defence of tree farms - 23 August 2006

Tree farms are a legitimate use of rural land which can revitalise rural communities, the Minister for Forestry and Conservation, Senator Eric Abetz, told the ABARE Regional Outlook Conference at Borden today. To quote;

“In fact, the 2004/05 Productivity Commission Trade and Assistance Review reveals that in 2004/05, a total of \$1,144.7 million – that is, \$1.14 billion – in assistance was provided to primary production, including drought funding.

“Of this, just \$40.3 million went to the forestry and logging sector – and \$20 million of that went to CSIRO.

“In this context, to attack forestry MIS and the 12-month rule as the cause of some rural change is not only unfair, it is unhelpful given the support which the rest of the rural sector receives.”

2. Cash flow 2007

- 2006 showed significant growth in scale of all operations of the business
 - 2006 - high percentage of sales funded by internal finance
 - Currently securitising a substantial percentage of internal loans and debtors – circa 10 million dollars
 - Continued receipt of growers payment plans - circa 4 million dollars over 12 months
 - In summary for these initiatives alone - circa 14 million dollar cash injection
 - Finalising the appointment of a preferred external financier to support enhanced liquidity of 2007 sales
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Outlook and Growth



3. TFS Earnings outlook

- FY 07 to see cash earnings to improve by circa 10% over FY 06
- Dividend to be maintained (see dividend policy)
- M.I.S sales to continue for FY 07 as the main form of tree lots sales
- Sales forecast of circa 325 hectares for 07.
- Total return on investment (EPS growth and div income) of circa 15%
- At 35 cents, current 06 PER is 4.6 x's





Strategic Positioning

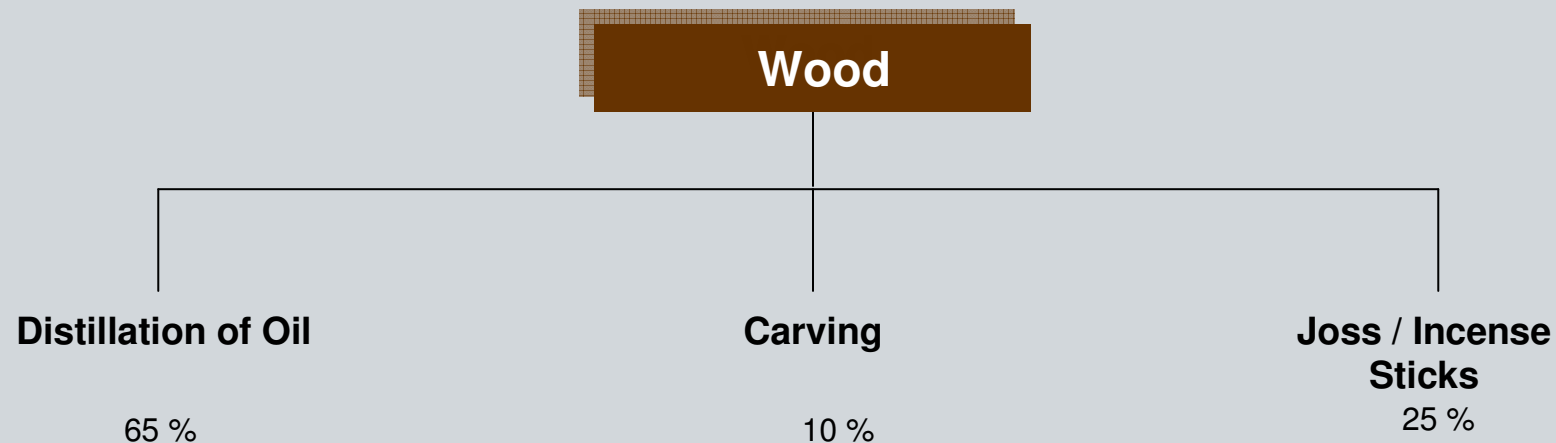
Key Messages

- TFS offers exposure to the high value end of the Sandalwood industry, via Australian-grown Indian Sandalwood
 - Underlying industry dynamics are compelling:
 - Global supply is constrained
 - Demand is likely to grow
 - Prices are rising
 - Two-phase strategy:
 - (1) Manage and own Indian Sandalwood plantations - growth funded by MIS-related revenue
 - (2) Evolve into vertically integrated producer of Sandalwood products as harvest commences in 2012
 - Growth in short term earnings through MIS-related plantings, and long term through vertical integration
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Strategic Positioning



Uses of Indian Sandalwood



- 65 %
- ↓
- Fine fragrance
 - Attar (non-alcohol based perfume)
 - Pharmaceutical
 - Aromatherapy
 - Naturopathy
 - Chewing scented tobacco
 - Flavoured betel nut

- **Over 70% of the world’s leading perfumes are reported to have an Indian Sandalwood component**
- **Well-known examples include: *Chanel No.5, Coco Chanel, Samsara, Mahora, Miss Dior, Fahrenheit, Shalimar, Dune, Anaïs Anaïs, Opium, Paris, Must de Cartier***

Indian Sandalwood - Demand

- Deeply entrenched Asian demand – cultural and religious observance
 - A strong international market – Middle East, Europe and US
 - Indian Sandalwood expert suggests that current world demand would be over 5,000 tonnes of heartwood if available
 - Demand has been robust, with growing demand evident from:
 - Fine fragrances
 - East Indian Sandalwood oil valued for fixative and traceable qualities
 - Global trend away from synthetics particularly in luxury fine fragrance sector
 - Emergence of scented chewing tobacco industry in Asia
 - Increased Asian population and affluence
 - ...but constrained by supply
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Indian Sandalwood - Supply

- Main historical sources have been Indonesia (East Timor) and India
 - India remains the largest producer of Indian Sandalwood, producing 3,000 tonnes pa (600 tonnes legally and 2,400 illegally)
 - Indian supply has diminished drastically, and could be exhausted within 2 to 3 years, owing to:
 - Deforestation
 - Illegal harvesting
 - Spike disease
 - Lack of foresight in forestry management
 - ...presenting a clear opportunity for Australian-based plantations
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Indian Sandalwood – Barriers to Entry

- Difficult tree to Grow (need specialty IP)
- Access to seed / seedlings
- Access to appropriate land
- High establishment costs
- Political limitations to plantation growth in offshore locations



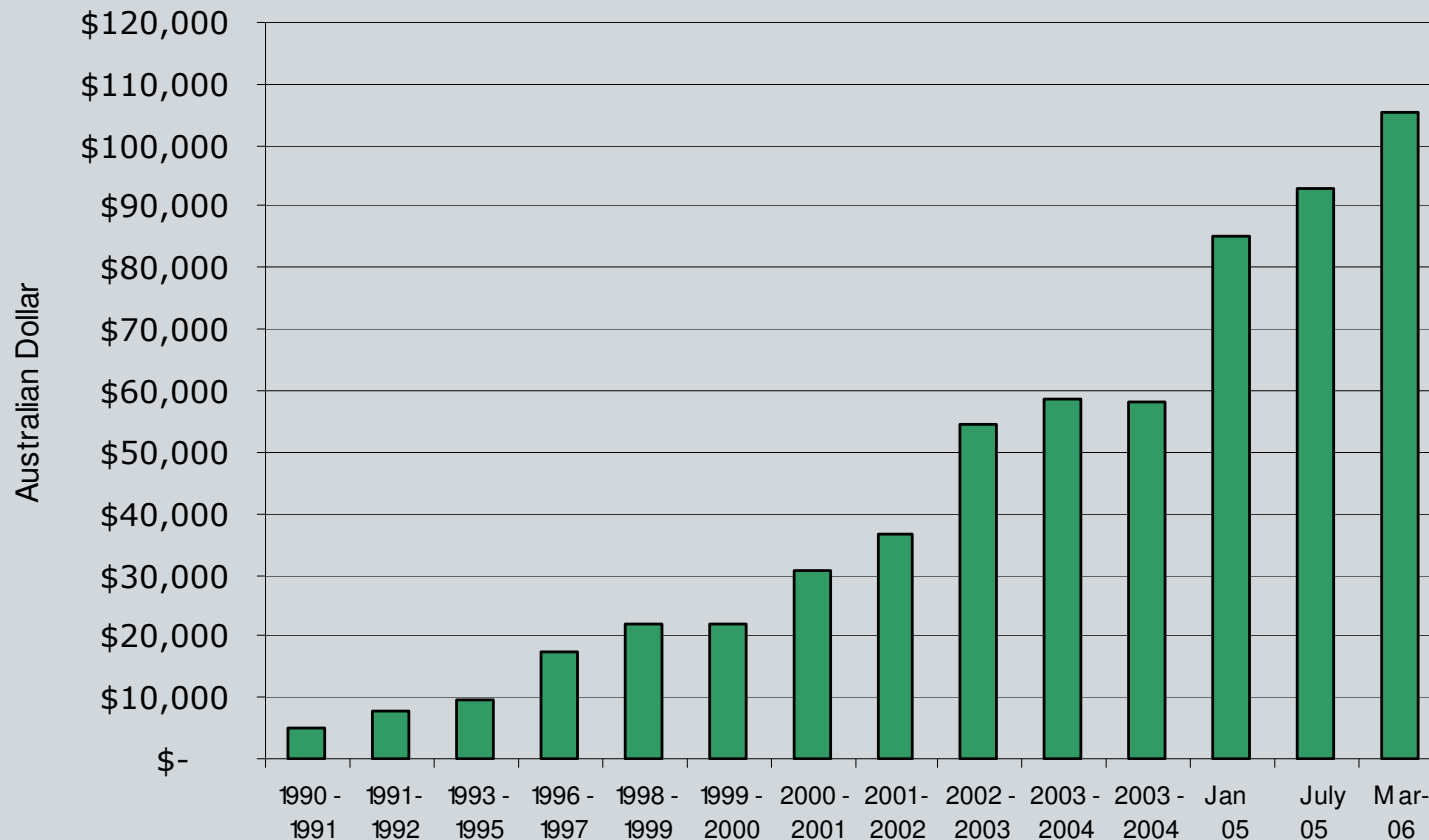
Strategic Positioning



Rising Indian Sandalwood Prices

Demand / supply imbalance evidenced by steep rise in Indian Sandalwood prices
– compound average annual increase of 22.3% over last 15 years

Auctions of the Tamil Nadu Forestry Department in India



Strategic Positioning



Strategic Plan

Over the past 8 months the board, using numerous resources and consultants have developed a strategic plan for the development of TFS into a vertically integrated business producing value added Sandalwood products for export markets.

Aims outlined

- To be a profitable vertically integrated producer of Sandalwood products
 - To be a significant player on the world stage
 - Vertical integration options being examined:
 - Downstream processing from wood to oil
 - Sales of by-products of Sandalwood plantations
 - Likely timing will coincide with first harvest in 2012
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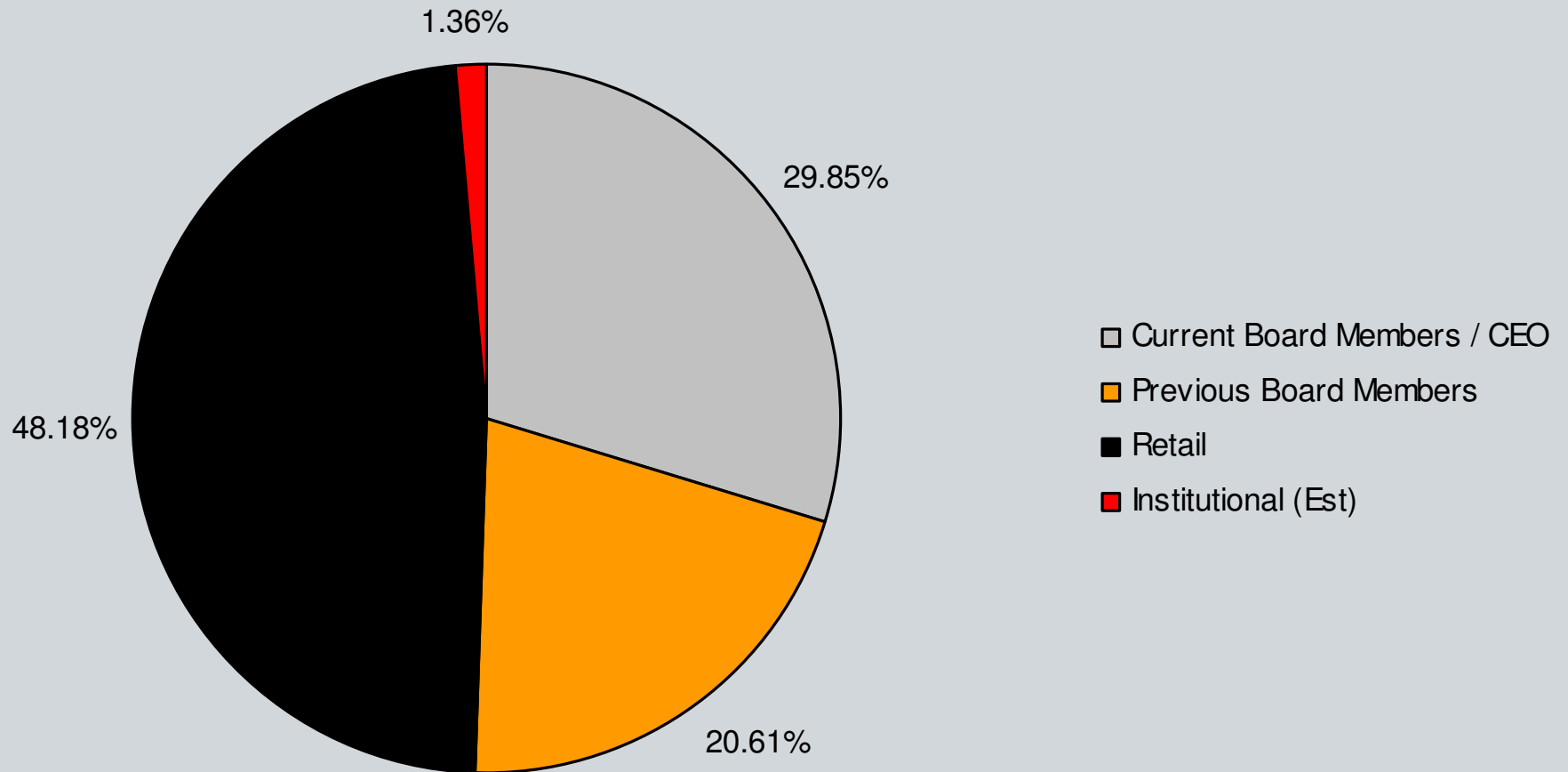
Strategic Positioning



Strategic Plan –Execution underway

- Research and Development –department established March 2006
 - Sandalwood industry value chain identified
 - Beachhead market identified in luxury fine fragrance market
 - Initial contact with potential customers has commenced
 - Assessment of processing techniques and scale of processing facility also under initial consultation.
 - With independent research highlighting I.R.R mid case of 15%, additional sales products other than MIS are being developed and reviewed for the sale of wood lots.
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Share Holding Composition



Dividend Policy



Company's policy is to pay out 30-50% of after tax 'cash' profits subject to any specific capital requirements that may arise from time to time.



Questions?



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