

11 November 2016



ASX Release

Chairman's Address - 2016 Annual General Meeting

In my address this morning I will summarise what has been a very busy and successful year for TFS and comment on the Company's outlook for the year to come.

TFS delivered strong progress across the business in 2016 and we either met or exceeded our financial and operational targets, as well as delivered on a number of important strategic initiatives which position the Company well for the coming years.

At a financial level, the Company's performance met the earnings guidance that was provided at the start of the year. FY2016 Cash EBITDA – which is the best measure of how the business has performed – was \$62.2 million, up 8% on FY2015. Cash revenue of \$175.5 million was 16% higher than FY2015, with increases across all the Company's main revenue streams. Net Profit After Tax of \$90.1 million was lower than FY2015, however this was due to a reduction in non-cash revenue driven by foreign currency movements. Our cash position at year end was a strong \$107 million, putting TFS in a strong position to deliver further growth in FY2017. The Board also elected to maintain a final fully franked dividend of 3 cents per share.

Operationally, 2016 was a significant step change for TFS. After completing our first two smaller harvests in 2014 and 2015, we harvested 310 tonnes of heartwood in 2016 – in line with our yield projections and a ten-fold increase on 2015. In order to support our first major harvest, we expanded TFS's operations. This included hiring and training more staff, adding equipment, building a new nursery and installing a second production line at our processing facility in Kununurra, Western Australia. This expansion ensured we successfully completed our third harvest in August, and we have since been processing these trees into value-added wood and oil products for sale to our customers across the globe.

In order to lay the foundation for a transformational 2017, our focus in the year was also on delivering our strategic priorities. I am delighted to say that we achieved each one of those priorities.

Firstly, we made excellent progress in developing end markets and finalising supply agreements for our Indian sandalwood oil. In February, TFS entered into long-term supply agreements with wood buyers in China and India at attractive prices, adding to our existing supply contracts with oil buyers Galderma and Lush Cosmetics. In September, TFS signed a five-year agreement, valued at approximately \$50 million, to supply Indian sandalwood oil to US-based Young Living, the largest essential oil company in the world. These agreements mean the vast majority of our harvests through to 2021 are now forward sold.

Secondly, TFS continued to grow its owned and managed plantation estate by 15% in FY2016, by completing new plantings of around 1,600 hectares. Our ownership of Indian sandalwood plantations is now over 3,500 hectares, which makes TFS the largest owner of Indian sandalwood plantations in the world. Our ownership represents almost one-third of the total estate, which stood at 12,182 hectares at year end.

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Thirdly, TFS advanced its pharmaceutical development in the year. Our acquisition of our US pharmaceutical partners Santalis and ViroXis, which completed in July 2015, means we now control more of the value chain. Our pharmaceutical pipeline has significant potential and we expect to report the results of four FDA Phase 2 trials in the first half of calendar 2017.

Fourthly, we introduced a number of new plantation investors in the year. This included a US-based global investment fund as a significant new investor that acquired \$27 million of land and trees in June. TFS also enjoyed continued interest from several repeat investors in the year, including the acquisition by the Church Commissioners for England of a further 213 hectares. The increasing appeal of an investment in TFS-managed plantations was demonstrated by our ability to increase the average establishment fee charged on each hectare sold by 29%. This bodes well for our plantation sales in FY17 and beyond.

Lastly, TFS successfully refinanced its debt facilities in July 2016. This refinancing saw maturity of our senior secured notes extended to 2023, provided an additional \$49 million in funds, and cut our cost of debt by 20%. This was an important achievement for TFS and means our debt maturity profile is properly aligned with the timing of the Company's larger harvests.

This has been another year of strong delivery by the Company, which is demonstrating a consistent ability to deliver what it has set out to achieve. While this is not yet reflected in the share price, the Board is confident that the Company's successful delivery of its financial and operational targets in FY2016 has established a strong platform for the future.

And, FY2017 is set to be a transformational year. As a result of the successful completion of our first major harvest, the heartwood from the harvested trees will be sold as value-added wood and oil products to customers around the world under our supply agreements. We have already started shipping processed wood to our new major customer in China, with each shipment fully paid for in advance, and commenced shipping oil to Young Living in the US.

TFS's financial performance is set for a step change in FY2017. The sales from our first major harvest will support an anticipated increase to like-for-like Cash EBITDA in FY2017 of at least 25% above last year, as well as deliver strong growth in cash from operating activities. In addition, we expect to establish approximately 1,500 hectares of new plantations in FY2017, taking the total estate under management to well over 13,000 hectares.

Our strategic priorities for this year will focus us on delivering that step change to our operating cash flows, further developing demand for our premium Indian sandalwood products, introducing additional plantation investors, and progressing our pharmaceutical product development.

Given the extensive development of the business operations compared to when TFS was founded, the Board has recommended changing the Company's name to Quintis Limited. The change to the name, and the launch of an ingredient brand, also called Quintis, is intended to create a unique, trusted global sandalwood brand that supports our strategy of penetrating the diverse and significant markets for Indian Sandalwood as our supply grows. I hope shareholders will support this resolution when it is put to vote later today.

Finally, I would like to take this opportunity to thank TFS management and staff for their efforts and achievements throughout the year in laying a strong foundation for the year to come. I would also like to thank the Board and TFS shareholders for their continued support. I look forward to FY2017 being a transformational year for TFS.

-ENDS-

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For investor queries, please contact:

Frank Wilson
Managing Director
Ph: (08) 9386 3299

Alistair Stevens
Chief Financial Officer
Ph: (08) 9386 3299

For analyst queries, please contact:

Gerry Bullon
gerry.bullon@insor.com.au
Ph: 0418 106 675

For media queries, please contact:

Adrian Watson
adrian.watson@fticonsulting.com
Ph: 0419 040 807

ABOUT TFS

TFS Corporation Ltd ("TFS", 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 sandalwood products, TFS owns a significant proportion of the plantations in its own right. TFS also operates a sandalwood processing facility in Kununurra, an oil distillery in Albany, Western Australia, and a pharmaceutical product development business in San Antonio, US.

TFS was originally founded 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 now manages the largest area of commercial Indian sandalwood plantations in the world, with over 12,000 hectares planted of which TFS owns directly and indirectly over 3,600 hectares. TFS plantations are managed on behalf of both institutional, sophisticated and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian sandalwood plantations and, via its subsidiary Santalis Pharmaceuticals Inc., entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company wholly owned by Nestle. TFS now has significant and multi-year contracts in place with a number of global companies across pharmaceutical, cosmetic and wood markets.

TFS's pharmaceutical division, Santalis Pharmaceutical, has four products in FDA approved Phase 2 trials. All products contain TFS's pharmaceutical grade Indian sandalwood oil and treat psoriasis, molluscum contagiosum, eczema and oral mucositis.

The company listed on the Australian Stock Exchange in December 2004. Since March 2014, TFS has been an ASX300 company.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business.

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 which continues to increase in price each year.

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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. The efficacy of Indian sandalwood is being tested by US dermatology companies for a range of skin conditions and the global pharmaceutical market has the potential to be a significant consumer of Indian sandalwood oil.