

ASX Release

28 November 2014

CHAIRMAN'S ADDRESS TO ANNUAL GENERAL MEETING

It is a pleasure to be addressing you at my first AGM as Non-Executive Chairman of TFS.

Year in review

I will shortly invite CEO Frank Wilson to provide a more detailed overview of our operations, growth plans, and outlook. However, I would like to make a few comments about impressions of the company that I've formed since joining the TFS Board, and more recently since commencing as Chairman.

TFS's achievements to date have been remarkable, and I am genuinely excited about the prospects for the business. In the 2014 financial year, TFS delivered a record net profit after tax of \$82.5 million, which was up 48 per cent on 2013. The balance sheet was also strengthened through a heavily oversubscribed \$67 million placement in May, which ensured the business was well funded to pursue value accretive growth opportunities.

TFS completed its first harvest in June of both TFS-owned and grower-sandalwood. The TFS-owned sandalwood has already been processed into oil and sold into the USA as pharmaceutical grade sandalwood oil, following a supply agreement with global dermatology leader Galderma. I will talk about this landmark deal in more detail later on. Meanwhile, we outbid five other parties in a public tender to secure the grower-owned wood. The oil from this sandalwood has already been committed to global customers in the pharmaceutical and fine fragrance industries.

TFS also increased ownership of plantation assets to 3,200 hectares in the year, up 52 per cent on 2013. This was in line with our strategy to increase our ownership of sandalwood plantations to better deliver value to shareholders. We also introduced new institutions as plantation investors and established a record 1,587 hectares of new plantings.

TFS was admitted to the S&P/ASX-300 index in March, which symbolises the company's growth achieved during the year.

Next steps

TFS is continuing to pursue opportunities to grow the business through our 'soil to oil' strategy. It centres on TFS continuing to expand our vertically integrated business model, including:

- Owning an increased amount of the plantation estate under management;
- Controlling more of the value chain; and
- Working with end market participants to establish high value uses and off-take volumes for our oil.

We believe TFS is in a strong market position given limited alternative sources of supply for pharmaceutical grade sandalwood oil; high barriers to entry (due to long lead times in the planting to harvest cycle); and sustainably high demand from a broad range of end markets. These are strong and diverse markets, including traditional markets in China and India, as well as pharmaceutical, fragrance and cosmetic markets.

Our supply agreement with Galderma is a great example of the underlying value of our plantation assets. Galderma is a global dermatology leader. A subsidiary of Nestlé, it possesses an extensive product portfolio distributed to 80 countries. Under our agreement, TFS is supplying pharmaceutical grade oil at a price of

US\$4,500 per kilogram, with Galderma taking all of our oil last year and the vast majority of production in the current year. The key product the oil is being used for is an over-the-counter acne product called Benzac.

It is worthwhile reflecting on the size of this market. There are 40-50 million acne sufferers in the US alone. \$4 billion worth of acne products are sold each year in the US. If TFS and Galderma can tap just a fraction of that market then the demand for TFS's sandalwood oil from the US alone will be enormous.

The CEO will provide more detail on developments in this area and the other markets we are targeting.

The recent addition of further commercial experience to our Board is intended to allow TFS to better identify and capture growth opportunities as we progress into the next level of development. TFS will also assess the merits of refinancing the corporate bond, taking into consideration cost and expected capital requirements, to ensure the company has the right capital structure in place to facilitate this growth.

Board restructure

Given this is my first time in speaking directly to TFS shareholders, I would like to briefly talk about the background behind my recent election as Chairman. A key focus at TFS this year has been to continue refreshing and expanding the Board as the Company has evolved through its life cycle. This is to ensure TFS has a complementary mix of diversity and expertise on the Board to ensure we best capture and deliver on opportunities that will drive shareholder value.

As mentioned previously, TFS has undergone a significant transformation and maturation over the past year, with our first harvest; agreement with Galderma; and improving earnings. Given the evolution of the business and the Company's growth strategy, TFS has looked to expand on the Board's existing skill set through the addition of people with strong commercial experience and expertise. This led to my appointment as Non-Executive Director in October and election as Chairman earlier this month.

TFS has also welcomed John Groppoli and will welcome Gillian Franklin to the Board as Non-Executive Directors.

John was appointed in October and brings a wealth of commercial experience to the Board. He has an extensive legal career and is currently Managing Director of RGM Equity and a Non-Executive Director of Automotive Holdings Group.

Gillian is Managing Director and a major shareholder of the Heat Group. You may not have heard of Heat Group, which is the largest Australian-owned cosmetics company, but many of you will have heard of Max Factor and COVERGIRL make-ups, which the Heat Group distributes. Gillian is also a director on a number of other boards, including the Australian Grand Prix, but it is her a strong track record and experience in the cosmetics, fine fragrance and pharmaceutical industries which will be valuable for TFS as we continue to target those growth markets. Gillian will join the Board from 1 December.

I would like to acknowledge my predecessor as Chairman, Patrick O'Connor, who remains on the Board as a Non-Executive Director. Patrick has invested significant time over the past year to do the work needed to enhance the Company's corporate governance systems and processes, and I wish to thank him for his efforts in this area.

This will be the last AGM that Ron Eacott attends as a TFS Non-Executive Director, as he retires from that position today. Ron was effectively a founding director of the company, having served on the board since March 2000.

Although my own time with Ron has been limited, there is no doubt he is a fierce supporter of TFS and his contribution growing this company to what it is today deserves the highest recognition. I'm sure Frank will have some more to add to this during his CEO presentation.

Good corporate governance will continue to be a priority for the Board as we grow the business. For example, last week we changed our board policy relating to the participation of TFS directors in Company investment products. While these transactions have always been at arms-length, your board has responded to feedback from shareholders and directors will no longer be able to access company loans to invest in plantations. We will continue to review our practices as the Company matures and also continue to listen to shareholder concerns.

I do want to emphasise that it has been my experience since I joined the Board that it is united in its relentless pursuit of opportunities to continue building TFS's enterprise value.

Conclusion

In closing, I would like to thank shareholders for their continued support, as well as our management team and staff for their dedication and hard work. It is important to acknowledge Frank Wilson's significant contribution to TFS. His drive and commitment to the Company is exemplary and the company would not be where it is today without him. I have been impressed with his passion and strategic vision for TFS, and I look forward to working closely with him to continue to drive shareholder value.

I am delighted about what has been achieved by TFS over the past 12 months and am excited about the next stage of our growth. With strong core end markets for our product and declining supply of premium Indian sandalwood globally, I believe there are strong fundamentals for the business and our 'soil to oil' strategy best positions us to deliver shareholder value from that platform.

-ENDS-

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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 Sandalwood processing and oil distribution facilities from Albany, Western Australia.

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 Indian Sandalwood plantations in the world, with approximately 9,000 hectares planted of which TFS owns directly and indirectly nearly 3,200 hectares. TFS plantations are managed on behalf of both institutional, high net worth and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian Sandalwood plantations and, via its 50% subsidiary Santalis Pharmaceuticals Inc., entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company.

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 and continues to increase in price each year.

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 and the global pharmaceutical market has the potential to be a significant consumer of Indian Sandalwood oil.