



YORK TIMBERS

Annual Report 2008

VISION

Growing Value for all our stakeholders

MISSION STATEMENT

Develop a hyper-efficient vertically integrated forest products company underpinned by sustainable resources

STRATEGY

- Manage York's plantation resources on a sustainable basis and supply optimal raw materials to each processing unit;
- Acquire further plantation assets in order to minimise the fibre purchases from third parties;
- Improve the efficiencies of our processing plants by replicating the most successful elements elsewhere in the Group;
- Foster close interaction between Forestry, Processing, Sales and Warehousing to maximise profits in the value chain;
- Become an industry leader in environmental compliance;
- Expand the international footprint of the business by focussing on import and export opportunities.



COMPANY OVERVIEW



"The 18-month financial period that spanned January 2007 to June 2008 marked the beginning of a new era in York's history"



HIGHLIGHTS

Global Forest Products acquired for R1,7 billion in July 2007 and successfully integrated

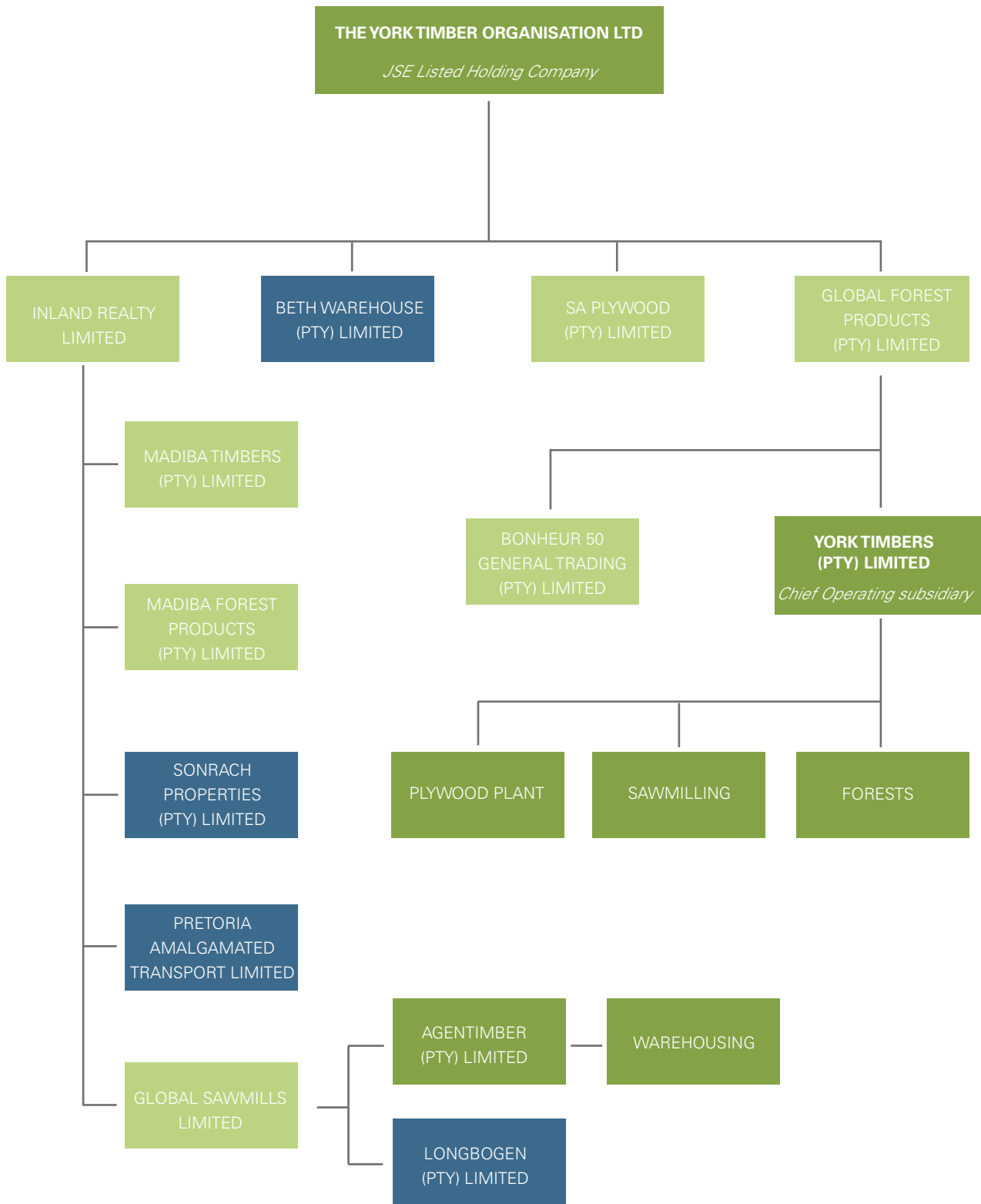
Revenue climbed 286%, from R394 million to R1,522 billion

Net asset value up from 941c to 2113c

Profit before finance costs grew by 1727%, from R46 million to R832 million

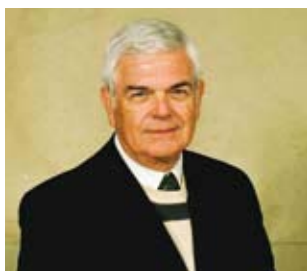
Headline earnings per share up by 280%, from 268,5c to 1019c

Cash generated by operating activities increased 28 fold, from R8 million to R224 million



TRADING
 PROPERTY
 NON-TRADING

BOARD OF DIRECTORS



*Jim Myers (67) (American)
Non-executive Chairman*

Chairman, Blackstar Managers. Directorships: Spescom Software Inc., EconetWireless Global, AMB Holdings, American Chamber of Commerce (SA) and President of American Chamber of Commerce. Jim has over twenty five years experience in the telecommunications industry, most recently focused on the African continent, and is experienced in defining, developing and implementing management systems in finance, engineering and production. He managed the American Chamber of Commerce from a low-key South African business organization to a strong issue oriented American organization and has been the President for three years. Advisor to the successful empowerment shareholder in Second Network Operator and was the principal driver in establishing and promoting the consortium that acquired the SBC/Telekom Malaysia equity stake in Telkom S.A., the dominant telecommunications operator in South Africa. Appointed Non-Executive Director of York in February 2007.



*Lance Cooper (39)
Chief Executive Officer*

Lance holds a BLC and LLB. He started his career at York in 1991 as Group Communications Officer. Whilst completing his LLB, he was appointed Company Secretary. In 1997, he was transferred to York Lumber Sawmill where he held the position of General Manager for 2 years. He was promoted to Group General Manager, Sawmilling in 1999. Lance was appointed as Chief Operating Officer in 2003. Appointed Chief Executive Officer in 2007.



*John Lehman (37)
Chief Financial Officer*

John Lehman's qualifications include a BCom (Accounting), BCompt (HON), CTA, CA(SA). John did his articles with BDO and qualified as a Chartered Accountant in 1998. In January 2001 he was appointed as a director and partner with BDO Spencer Steward JHB Inc. John was also appointed as director of Marketing for BDO for 2001 – 2004. In January 2003 John started the BDO Corporate Finance department and led this department for three years until December 2005. John provided consulting advice to York since June 2004 and in January 2006 John joined listed forestry company York as the Financial Director. Appointed Chief Financial Officer in 2007.



*Gay Mokoena (45)
Director Corporate Services*

Gay is a Development Economist and he holds a B. Admin (Hons) and a Master of Business Leadership (MBL) degrees from Unisa. He has worked in the small business development sector for more than 20 years. He has been on an internship as a Visiting Auditor at the West LB Bank, Düsseldorf, in Germany in 1995. Gay joined the Mpumalanga Provincial Government in 1994 where he assisted with the transformation of the previous governmental structures. He left government at the end of 1998 to start Silulu Investment Services, a private company involved in financial and consulting services for the SMME sector. Silulu specializes in deal-making for BEE consortia. Directorships: Mbombela Economic Development Agency (MEDA) and Greater Nelspruit Utility Company (Pty) Limited. Chairperson of the Mpumalanga Housing Finance Company since its incorporation in 1999 and the Secretary-General of the National African Federated Chamber of Commerce and Industry (NAFCOC) in the Mpumalanga Province. Appointed Executive Director of York in 2007.



*Andrew Bonamour (36)
Non-executive Director*

Andrew has extensive experience in the financial services industry. Andrew led the formation of Blackstar Investors Plc, a GBP80 million private equity fund focussed on private equity investment in South Africa, which is listed on AIM, operated by the London Stock Exchange. Andrew heads up Blackstar Managers which advises the funds on behalf of Blackstar Investors Plc. Andrew previously worked at Brait S.A Limited where he held positions in Investment banking, principal investment divisions and Corporate Finance. At Brait Andrew originated and played a leading role in a variety of transactions ranging from leveraged buyouts, mergers and acquisitions, capital replacements and restructurings. Andrew has an in depth knowledge of and experience in corporate finance, private equity and investment banking. Andrew holds a Bachelor of Commerce degree.

*Pieter Odendaal (62)
Non-executive Director*

Pieter holds a MSc in Forestry from the University of Stellenbosch. He started his career with the Indigenous Forest Research Station in the Southern Cape and became involved with forest and mountain catchment planning and management. Pieter served as Director of Forestry in KwaZulu and Regional Director of state forestry in Zululand and Mpumalanga/Limpopo. Became Divisional Director of Forestry in Safcol Ltd and later Chief Executive of MTO Forestry (Pty) Ltd and Amathola Forestry (Pty) Ltd. Currently involved with Forest Stewardship Council certification of forests and plantations internationally. Appointed Non-executive Director of York in 2008.



*Simon Murray (35)
Non-executive Director*

Simon has been a private equity transactor at RMB Ventures for 7 years. During this time he has been involved in private equity transactions across a wide range of industries and represents RMB Ventures interests on a number of boards. Prior to this he was a transactor at Horizon Equity Partners a small 3rd party private equity fund manager. He holds a BComm from Wits and a CFA.



*Tlhopheho Modise (48)
Non-executive Director*

Currently the CEO of Grandbridge Trading publishers of TRIBUTE, a magazine for black professionals. He is a principal at Aozora. Tlhopheho also serves on the credit committee at the IDC and also served on the board of Global Forest Products companies until July 2007. Tlhopheho spent eight years at PG Bison and held the position of Operations Manager. Tlhopheho was also an Executive Director at The Fedics Group and head of the Industrial catering division, Fedics Food Services (FFS). He has also lectured on Operations Management, Strategy and Human Resources for the following institutions, Henley Management College, Graduate Institute of Management and Technology (GIMT) and the International Centre for Management Development. Tlhopheho was also the Plant Director at Tiger Wheels Manufacturing. A graduate of Henley Management College and holds the following qualifications; certificates in Strategic Management and Marketing, Diploma in Management and an MBA, and Wits Graduate School MAP (Managerial Advancement Programme). Appointed to the York board in 2007.



*Paul Botha (45)
Non-executive Director*

Paul is a practising attorney and notary public having been in private practice since 1986. Paul did a substantial amount of cross-border mergers and acquisition work throughout Africa until 1998 when he established an advisory business for Brait, an international investment banking business. Paul was the CEO of the advisory business of Brait from 1998 to 2003. At present, Paul is the CEO and founder of Metier Investment & Advisory Services (Pty) Ltd, a niche corporate finance and investment house. He also provides commercial lawyering and corporate advice under the name of Paul Botha & Associates. Paul serves on the boards of directors of numerous businesses. He has acted as an adviser on more than 120 transactions, including private equity transactions and Stock Exchange related transactions. Qualifications: BA LLB, HDip Company Law, HDip Tax, Notary Public. Appointed Non-executive Director in 2007.



*Shakeel Meer (46)
Non-executive Director*

Shakeel is a member of IDC's Executive Management with overall responsibility for IDC investments in the Metals, Wood and Paper, Chemicals, Textiles and Clothing and Construction related sectors as well as overall responsibility for managing off-balance sheet and ring-fenced funds. Previous experience - Mechanical engineering – design and maintenance of systems. Due diligences and project development in various sectors (including Wood and Paper). Shakeel was also the Head of Agro Industries Strategic Business Unit and Corporate Strategy and Portfolio Management at IDC. Masters in Business Leadership (UNISA) Bachelor of Science in Mechanical Engineering (University of Natal) Developing Strategy for Value Creation (London Business School) Senior Management Development Programme (Euromoney). Appointed Non-executive Director in 2007.



*Dick Claunch (63) (American)
Non-executive Director*

Richard Claunch graduated from the University of Montana, in the USA in 1969 with a BSc Forest Management (Magna Cum Laude). He was subsequently employed by the Weyerhaeuser Company in the USA where, from 1969 to 2001, he held various positions in its Timberlands Division. His experience ranges from being an entry level logging engineer to an executive manager and primarily being respectively its International Log Marketing Manager and the company's International Marketing Manager in which positions he was responsible for new market development for the company's export log business and later managing log exports on behalf of other international companies. Richard is a US citizen with permanent residence in South Africa. Appointed to the York Board in 2007.



CHAIRMAN'S STATEMENT



"York is the largest vertically integrated forestry and sawmilling company in Africa following the acquisition of Global Forest Products"

It is with great pleasure that I present York's latest set of financial results for the 18-month period from January 2007 to June 2008. The reason for this change at year end is to align the financial year end of the listed holding company with that of the operational companies subsequent to the acquisition of Global Forest Products in July 2007. For this reason, two sets of interim results were published for the period under review, for the six months to June 2007, and for the six months to December 2007.

The 18-month period under review was without doubt one of the most exciting, yet challenging, in York's history. York became the largest vertically integrated forestry and sawmilling company in Africa following the acquisition of Global Forestry Products (GFP) in July 2007, lifting our share of the Southern African sawn timber market to 19% from the previous 8%. York is now 60% self-sufficient in terms of timber plantations, and owns seven modern and well-managed sawmills, as well as a plywood mill. It is focusing on further acquisitions to increase its ownership of resource. The GFP acquisition was funded partially with debt and partially by way of a R350 million rights offer and a R203 million issue of shares for cash to finance working capital for the merged group. This resulted in the number of ordinary shares in issue increasing to 78 million from 11 million, substantially improving the liquidity of the share.

It is with sadness that we mark the passing of Solly Tucker, our former CEO and Chairman, who died after a short illness on 6 August 2008. We remember him as a gracious, flamboyant and often outspoken leader of legendary courage and integrity. He was not afraid to defend York's rights where he felt these were imperiled. He was known and respected throughout the industry. Our sincere condolences go out to his wife, Marika, his children, grandchildren and countless friends. Solly was deeply dedicated not just to York and its staff, but had a vision that extended to South Africa's forestry and timber sector, a vision that is well on its way to realisation.

BEE STATUS

In the period, York's BEE shareholding increased to 39% as a result of the Lereko Metier Capital Growth Fund's (Lereko Metier) interest in the company having increased from 4% to 14,1%. In a transaction worth R201,3 million, Blackstar Investors Plc sold 8 million ordinary shares in the company at R25,17 a share to Lereko Metier. Blackstar Plc will remain a significant shareholder. We welcome the enhanced BEE shareholding of Lereko Metier, and value their strategic input and participation at board level.

CHANGES TO THE BOARD

Several changes were made to the York Board during the period under review. Gay Mokoena became Executive Director for Corporate Services, and was therefore no longer designated as a non-executive director. Ivor Tucker, York's outgoing CEO retired in April 2007 and Lance Cooper was appointed as the new CEO. Sally Motlana, who has served on the Board as a non-executive director since 1997, retired with effect from 30 May 2007. Gavin Tipper and William Marshall-Smith also resigned from the Board during the period. Richard Claunch joined the Board as a non-executive director on 30 May 2007. Several other appointments to the Board were made: Simon Murray, Tlhopheho Modise, Shakeel Meer and Paul Botha. We welcome the new appointees and thank those who no longer serve on the York Board for their dedication and loyal service.


The directors on York's Board represent a strong skills set capable of providing clear direction to the management of York. There is a co-operative, supportive relationship amongst the directors and with management that ensures optimum results for the shareholders. The Group's executive management is experienced and has demonstrated its ability to run the operations of York effectively and efficiently.

APPRECIATION

I would like to thank our staff and executives for their passion, dedication and loyalty over a very trying trading period, during which they had to contend with a devastating fire, difficult market conditions and the complexities of growth by acquisition. They performed superbly under the circumstances. I would also like to thank our customers and suppliers for their continuing support, without which we would not exist. We look forward to building on these relationships in years to come.

Jim Myers
Non-Executive Chairman

CHIEF EXECUTIVE OFFICER'S REPORT



"York is likely to target bigger forestry and processing businesses, both locally and abroad and will use its track record of improving margins to enhance future acquisitions"

OVERVIEW

The 18-month financial period that spanned January 2007 to June 2008 marked the dawn of a new era in York's history.

The Company acquired the business of Global Forest Products (GFP) as a going concern with effect from 12 July 2007, transforming York into a vertically integrated forestry company, including 61,000 hectares of plantations, eight timber processing mills and 3,700 employees. The GFP assets were successfully integrated into York, notwithstanding a large plantation fire on 27 July 2007, less than one month after the acquisition date. Management have made meaningful progress towards achieving the Group's three-year synergy plan to unlock additional margins as a result of the merger. The R1,7 billion acquisition of GFP was funded with half debt and half equity. York Directors intend to repay the acquisition debt over an eight-year period with cash generated by the sale of York's processed timber products. Improved efficiencies in the processing units, combined with a reduction in operating expenses and rapidly rising log prices as a result of a long term shortage, will be harnessed in order to improve margins.

STRATEGY

York's short-term strategy is to procure further plantations in close proximity to its existing operations and several small plantations are currently under consideration. These acquisitions will provide York investors with upside as log prices rise and improved sustainability as the Group becomes increasingly self sufficient. New acquisitions will be efficiently managed as part of York's existing plantation portfolio and will be located in close proximity to York's timber mills. In addition, management will focus on reducing costs and improving efficiencies of the recently acquired GFP operations to bring them in line with the most efficient operations within the Group.

In the period under review, York acquired Goedgeloof plantation from Crocodile Valley Estates (Pty) Limited as a going concern for a consideration of R32,3 million. An amount of R12,3 million was funded from York's cash resources, with the balance secured by way of long-term funding. Goedgeloof was integrated into York's adjoining London plantation.

In the medium term, York is likely to target bigger forestry and processing businesses, both locally and abroad. The programme of unlocking efficiency gains at the GFP mills will be replicated by harnessing the collective knowledge of York's management team. York will use its track record of improving margins in order to enhance future acquisitions.

FINANCIAL HIGHLIGHTS

The substantial improvements in most key financial indicators need to be viewed in the context of an 18-month reporting period, compared to a 12-month prior period and the acquisition of Global Forest Products with effect from 12 July 2007. Notwithstanding these factors, these results are very pleasing and demonstrate that management have successfully consolidated the new enlarged York. York is well positioned to unlock further value through planned future efficiency gains, repayment of acquisition debt and escalating plantation values as the value of raw materials rise as a result of the long-term shortage.

A detailed interpretation of the results is contained in the Chief Financial Officer's Report on page 12.

"The Group is a year into a three-year efficiency improvement plan using tried and tested technology in use elsewhere within the Group and implementation is being handled by a team with a proven track record of success"



CHIEF EXECUTIVE OFFICER'S REPORT



"York is 60% self-sufficient from its own timber plantations
and well positioned to meet its objectives"



OPERATIONAL REPORT

MARKET CONDITIONS

York's sawn timber market share increased from 8% of the Southern African market in December 2006 to 19% of the market in June 2008, following the acquisition of GFP. Market conditions were tough during the period under review due to the slowdown in residential construction and a temporary oversupply of timber caused by surplus logs being processed by the industry as a result of fire salvage operations.

Recent wide spread fires in September 2008 are likely to extend the log salvage operations and temporary oversupply deep into 2009 until the last of the recently burnt plantations has been salvaged. These latest fires will however further compound the long-term shortage as many of the trees that were damaged were under 8 years and are not salvageable. A detailed study of supply, demand and import parity is included later in this report.

PROCESSING OPERATIONS

York's seven sawmills and plywood mill are located adjacent to its plantations in the Escarpment and Highveld regions of the Mpumalanga province and are highly specialised small, medium and large log mills. The mills vary in efficiency from amongst the most efficient in the country to lagging well behind industry averages in the case of some of the recently acquired operations. The Group is a year into a three-year efficiency improvement plan whereby the most successful operations are being used as a blueprint for the least efficient operations introducing tried and tested technology. The implementation of this plan is being handled by management with a proven track record of success. Due to their proximity to the plantations, the eight specialised mills provide an ideal customer base for York's Forestry division.

The Company's mills are able to optimally convert the full range of products from the trees into finished products, ranging from expensive pruned butt logs to thinner knotty tree tops.

During the period under review, industry log prices rose 69% whilst sawn timber prices rose 24%. Processing operations throughout the timber industry experienced margin squeeze and several inefficient mills were forced to close. This is reflected in the Segmental Review, which shows sawmilling margins dropping from 15% to 12,27%. York's mills were able to absorb a portion of the margin squeeze through increased efficiencies. However, overall margins declined as a result of the inclusion of the lower margin GFP mills from July 2007. Against that, York's Forestry division benefited from the rising log costs by way of increased operating profits and significant fair value adjustments. York's recently acquired Driekop sawmill was damaged in the 2007 fire and is currently being rebuilt for commissioning in March 2009. Benefits from the reinstatement of the damaged mill will only be fully evident during the 2010 financial period. Driekop sawmill was insured for asset replacement and business interruption and the results under review include a business interruption claim from the underwriters.

TWO BAD FIRE SEASONS

Forestry operations were disrupted by the worst plantation fires in South Africa's history in July 2007. Almost 11 000 hectares of York's plantations were affected by the fires that also destroyed 6,5% of South Africa's pine sawlog reserves. Once the fires had been contained, the damaged trees were felled and either processed or stored under irrigation. By June 2008, more than half the total burnt area had been replanted. The remainder of the burnt areas will be replanted within the next 12 months.

The effects of the fire negatively impacted York's operational cashflow during the year under review as a large volume of burnt logs had to be felled and stored under permanent irrigation (SUPI) for processing during the next financial period and replanting of the vast burnt areas is being telescoped into a two-year period to normalise the growing regimes as quickly as possible. On a positive note, the processing of SUPI log stocks during the next 12-month period will result in the cash invested in stored logs being unlocked. The recent 2008 fires damaged approximately 1 600 hectares of pine and 300 hectares of eucalyptus plantations. York's plantations were insured and management plan to fell the burnt trees in three months and replant by April 2009, by applying the insurance proceeds towards the replanting operation. The total damaged area across the whole industry in the 2008 fires is estimated at approximately 40 000 hectares at the time of writing and is likely to be recorded as the second worst fire season in the history of the industry in South Africa.

TIMBER WAREHOUSING

This division has operated since 2002 from York's Cordelfos Warehouse in Pretoria West and has recently been expanded to supply the KwaZulu-Natal and Western Cape markets. The Warehouse operation is geared to supply the smaller retailer, as well as York's larger customers.



The business provides a 24-hour lead time delivery service and offers an attractive alternative to the customer having to order bulk truckloads direct from sawmills. Whilst York's warehouses purchase most of their timber from suppliers in the Southern African market, the medium-term objective is to warehouse and distribute imported timber to the Group's customer base. The warehouses will enable York to maintain and grow its market share in the sawn timber market once import parity is breached and South Africa is forced to import timber to overcome the forecast long-term timber shortage.

OUTLOOK

Notwithstanding slower trading conditions in 2008, York is well positioned to benefit from the timber shortage and eventual timber imports. The Group is 60% self-sufficient from its own timber plantations, owns seven modern, well-managed sawmills and a plywood mill and is focusing on further acquisitions to increase its ownership of forestry resource. The substantial cost savings being implemented, together with improved efficiencies, will ensure that York is well positioned to meet its objectives during the current market downturn and reap great benefits once the economy begins to improve.

Lance Cooper
Chief Executive Officer