



ABRIDGED CONSOLIDATED SEGMENTAL ANALYSIS (continued)

Business segments:

The Group is organised into four major operating divisions – Sawn Timber Products, Plywood, Merchandising and Forestry. The divisions are the basis on which the Group reports its primary segment information. The Sawn Timber Products segment produces and sells a broad range of structural and industrial sawn timber products. The Plywood division manufactures and sells plywood products. The Merchandising division buys and sells timber-related products on a wholesale basis. The Forestry division owns plantations on which it grows pine and eucalyptus trees that are felled on a rotational basis and then sold.

Geographic segments:

The Group regards its business as a single geographic segment.

Segment assets and liabilities:

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of accounts, wages and accrued liabilities. Segment assets and liabilities do not include deferred income taxes and taxes currently payable.

Inter-segment transfers:

Segment revenue, segment expenses and segment results include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in consolidation.

There were no changes in segment accounting policy although two new segments were added.

NOTES TO THE ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS

The Group is domiciled in South Africa. The abridged consolidated Group financial results of the 18 months ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the Group). The abridged consolidated financial results were authorised for issue on 16 September 2008.

(a) Basis of preparation

These abridged The York Timber Organisation Limited ("the Group") financial results for the eighteen months ended 30 June 2008 constitute a summary, prepared in terms of International Accounting Standard 34, of the Group's audited financial statements. They have been prepared in accordance with International Financial Reporting Standards and the South African Companies Act 1973, as amended.

KPMG Inc's unmodified auditors' reports included in the annual financial statements and on the summarised financial statements contained in this abridged report are available for inspection at the company's registered office.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments held for trading and financial instruments classified as available for sale are measured at fair value;
- derivative financial instruments are measured at fair value;
- investment property is measured at fair value; and
- biological assets are measured at fair value less estimated point of sale costs.

(c) Functional and presentation currency

The financial statements are presented in Rands, which is the Group's functional currency. All financial information presented in Rands has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These judgements and estimates are reviewed annually by management. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgments and estimates that have a significant effect on the financial statements, are:

- biological assets,
- goodwill;
- investment property;
- trade and other receivables;
- provisions;
- measurements of share-based payments;
- valuation of financial instruments; and
- contingencies.

(e) Basic and headline earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders for the period of R538,7 million (December 2006: R31,3 million) by the weighted average of 52 930 865 ordinary shares in issue (December 2006: 11 040 597 shares).

Headline earnings per share are calculated by dividing the earnings attributable to ordinary shareholders for the period of R539,3 million (December 2006: R29,6 million) by the weighted average of 52 930 865 ordinary shares in issue (December 2006: 11 040 597 shares).

(f) Fully diluted basic and headline earnings per ordinary share

The calculation of fully diluted basic earnings per ordinary share is based on earnings attributable to ordinary shareholders of R543,6 million (December 2006: R29 million) and the weighted average of 55 407 812 fully diluted ordinary shares (December 2006: 11 040 597 shares).

The calculation of fully diluted headline earnings per ordinary share is based on headline earnings attributable to ordinary shareholders of R543,9 million (December 2006: R29 million) and the weighted average of 55 407 812 fully diluted ordinary shares (December 2006: 11 040 597 shares).

(g) Dividends

Preference dividends amounting to R4,6 million (2006: R0,957 million) were paid during the period. The preference shares issued are convertible at the option of the holder, and are therefore classified as a liability, in accordance with the classification requirements of IAS 32. Accordingly the preference dividends are included in finance expense.

(h) Net asset value per share

Net asset value per share is calculated by dividing the net asset value as at 30 June 2008 of R1 655 million (December 2006: R103 million) by 78 370 068 ordinary shares in issue as at the end of the period (December 2006: 11 040 597 shares).

(i) Significant accounting policies

Except for the adoption of IFRS 2: Share-based payments and IFRS 7: Financial Instruments: Disclosure, the accounting policies applied by the Group in these abridged consolidated financial results are the same as those applied by the Group in the most recent annual financial statements as at and for the year ended 31 December 2006.

(j) Year-end change

The Group's year-end has been changed from December to June to fall in line with the Global Forest Products' financial year-end.

BUSINESS COMBINATION

Acquisition of Global Forest Products (GFP)

York purchased 100% of all the shares in and shareholders' claims against Global Forest Products (Pty) Limited and South African Plywood (Pty) Limited during the period under review for an amount, inclusive of acquisition costs, of R1 703 million. The acquisition was settled by cash raised from a rights offer, debt facilities extended by Rand Merchant Bank Limited and a vendor consideration issue to the Independent Development Corporation (IDC). Approval of the purchase was ratified by shareholders on 12 July 2007.

GFP is an integrated forest products business, with its head quarters situated in Sabie, South Africa. It manages almost 87 000 hectares of land, predominantly pine plantations. The business also owns and operates timber processing facilities which include three sawmills and a plywood plant. GFP was a significant supplier of solid wood products to the South African market and actively exported to five other countries. All land holdings of GFP are Forest Stewardship Council certified. Plantations are classified into two areas, namely Escarpment, situated in Sabie, Graskop and White River areas, and Highveld. The sawmills are situated in the same areas. Goodwill representing the difference of fair values of net assets purchased and the acquisition price, was underpinned by the availability of own logs for the GFP and York mills, thereby ensuring sustainability. Refer to the calculation below.

The acquiree's revenue and profit since acquisition date (13 July 2007) was approximately R1,1 billion and R700 million (EBIT) respectively.

R'000	Pre acquisition carrying amounts	Fair value adjustments	Recognised values on acquisitions
Business combinations			
Property, plant and equipment	342 963	(56 677)	286 286
Biological assets	1 321 968	–	1 321 968
Inventories	106 658	–	106 658
Trade and other receivables	121 593	–	121 593
Cash and cash equivalents	4 868	–	4 868
Loan and borrowings	(257 066)	–	(257 066)
Deferred tax liabilities	(332 226)	36 651	(295 575)
Trade and other payables	(155 053)	(54 653)	(209 697)
Net identifiable assets and liabilities	1 153 705	(74 669)	1 079 036
Goodwill on acquisition			624 613
Consideration paid in cash, satisfied in cash			1 703 649
Warranty provision refunded in cash by vendors			(14 293)
Business combination cost			32
Cash and cash equivalents purchased			(4 868)
Net cash outflow			1 684 520

Fair values of assets and liabilities

The identifiable assets, liabilities and contingent liabilities of the acquiree that existed at the date of acquisition are recognised in the consolidated financial statements at fair value.

Biological assets

- These were valued on the Standing Timber methodology, using the pre-fire volumes and selling prices information available in early July 2007.

Property, plant and equipment

- Land was valued independently and the value increased by R95,6 million
- Residential and commercial buildings were valued independently and an increased value of R35,1 million
- Industrial buildings were independently valued at replacement value, but a fair value could not be established owing to the integration of these businesses with the plantation business and the lack of a market for buildings in their locality. No adjustment to carrying values was therefore made.
- The fair value of the remaining plant and equipment by business unit was then established by reviewing the recoverable amounts of the business units as cash-generating units based on value in use calculations. These calculations used in cash flow projections were based upon a detailed five-year forecast which was based on the current installed production facilities and business circumstances (as at July 2007). The calculations reflected the requirement to impair assets to the value of R238,2 million over the operations Sabie Mill, Driekop and Plywood.

Inventories of finished goods

- Finished goods were valued at selling prices less the cost of disposal and a reasonable profit margin for the selling effort of the acquirer.
- Inventory was valued at July 2007 achieved selling prices, less a selling margin of 5% and Warehouse Distribution costs in the case of the Plywood division.
- Aggregate values of all business unit inventory required an upward valuation of R415 000. Owing to the immateriality no adjustment was made.

Intangible assets

- No intangible assets were identified as part of the assets taken over. Goodwill of R610 million was raised, being the difference between the acquisition cost and the fair values of assets and liabilities.

Deferred tax assets and liabilities

- Acquired deferred tax assets and liabilities were recognised at the probable amount of the tax benefit/liability that will be recovered/payable, assessed from the point of view of the acquirer and the Group as a whole.

Indemnities in a business combination

- The contingent liabilities with respect to environmental costs were valued and an amount of R54 million was provided for in the calculation of the business combination.

Liabilities incurred or assumed

- The cost of a business combination included liabilities incurred or assumed by the acquirer (Group) in exchange for control of GFP. Future losses or other costs expected to be incurred due to the acquisitions, such as the costs of restructuring GFP, were not part of the business combination as they were not liabilities at the date of acquisition.
- By definition no adjustment was made for restructuring costs.

Consideration for business combination

- Consideration paid by York for the acquisition of the businesses consisted of three parts:
- R350 million – 23 333 333 ordinary shares issued through rights offer at R15 per share
- R500 million – 33 333 333 shares issued through "Vendor Consideration Issue" at R15 per share
- Cash consideration of R854 million.

COMMENTARY

The 18-month financial period that spanned January 2007 to June 2008 marked the dawn of a new era in York's history. The Group acquired the business of Global Forest Products (GFP) as a going concern with effect from 1 July 2007, transforming York into a vertically integrated forestry company, including 62 000 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 12 July 2007, less than one month after the acquisition date. Management has 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 intends to repay the acquisition debt over an eight-year period with cash generated by the Group's operations.

Financial review

- Headline earnings per share (HEPS) was up 280% to 1 019 cents (2006: 269 cents). Compared to the post-merger 12-month period. HEPS was up 150% to 671 cents.
- The biological assets are fair valued at the Net Standing Value Method and have increased 46% in value since they were acquired in July 2007. The increase arose due to the rise in saw log prices in the South African market as a result of the shortage in raw material. This value increase was notwithstanding the write-off of timber to the value of R87 million as a result of the July 2007 fires. The long-term liability arose mainly due to acquisition finance raised to purchase GFP. The acquisition of R1,7 billion was financed with R850 million equity finance and R850 million loan finance. GFP already had asset-based finance loans of R257 million which were part of the net assets acquired.
- Net Asset Value per share grew 125% to 2 113 cents (2006: 941 cents) and Tangible Net Asset Value per share grew 42%, from 941 cents (2006) to 1 334 cents.
- The majority of revenue growth resulted from acquisition with some of the growth being due to increases in selling prices.
- The residential building market is seasonal in nature, with the July to December period usually being better than the January to June period.
- The increase in the Gross Margin percentage from 38% to 63% is due to the change in the nature of the Group from a mainly manufacturing concern to that of a vertically integrated forestry company with its own manufacturing plants. The direct ownership of the forestry business gives York access to its own raw material.
- During the period under review certain material items affected the results:
 - The fair value adjustment of the biological asset of R607 million is largely attributable to rapidly rising log prices. The fair value of biological assets is discussed in detail under a separate paragraph.
 - Certain restructuring costs of R8,3 million which relate to the retrenchment cost of senior management as a result of the merger.
 - Direct costs of R25,7 million relating to the fires in July 2007 of which R3,3 million related to fire fighting, R 5,3 million write-off of roadside stocks destroyed and R17,5 million relating to additional harvesting and re-planting costs.
- The pre- and post-merger differences show a larger proportion of earnings going to lenders which is indicative of the change in the debt equity structure of the Group. The larger debt is secured by the value of the biological assets. The rationale for the increase in gearing was due to lower risk cash flows being generated as a result of the acquisition of the large resource of timber.
- The total net finance costs for the period amounted to R93,9 million (2001: R3,2 million) after adjusting for the following items:
 - The share-based payment of R10,4 million relates to the conversion right of the preference shares issues to York's Staff and Community Trusts during March 2007. This is a once-off charge to the income statement. The 10 million ordinary shares issued to the Staff and Community Trusts funded by the IDC were issued at fair value and will not attract any share-based payment charge.
 - As part of the debt funding raised for the acquisition of GFP, York entered into an interest rate swap transaction of R1,15 billion to hedge itself against the risk of interest rate increases. In terms of IFRS the swap has to be fair valued. The current fair value of the swap amounts to R78,8 million. The R78,8 million income is a once-off benefit as York intends to use hedge accounting with effect from 1 July 2009.

Segmental review

Forestry

The Forestry division had an operating margin of 32,3% for the period under review. This is after costs of R25 million were expensed as a result of the July 2007 fires.

Sawmilling

The decline in operating margin of Sawmilling was mainly due to the newly acquired underperforming GFP operations. The rapid rise in raw material costs also had the effect of reducing margins.

Plywood

The Plywood business had a difficult operational period for the six months to December 2007, posting a loss of R9,6 million. During the six months ended June 2008 the division posted a profit of R3,7 million.

Warehousing

Margins in the Warehousing business declined as a result of the slower market and set-up costs incurred for expansion.

Working capital

- Net working capital increased from R36,9 million to R156 million. Net working capital of R73 million was acquired through the acquisition of GFP.
- Working capital as a percentage of sales reduced to 6,7% as at the end of June 2008. This was as a result of good working capital management.
- Included in the debtors are insurance collectables of R14,1 million and forestry roadside stock and wetdeck stocks of R26,6 million, accumulated largely as a result of the fire.

Cash flow

- Cash from operations amounted to R252 million (2006: R39 million).
- Cash flow generated during the period amounted to R50 million after capital expenditure and before forestry acquisitions. All capital expenditure is currently financed out of own cash resources.

Loans and borrowings and financial instruments

- The net debt after cash amounted to R970 million as at the June year-end, with a reduction of 6% from the balance as at 31 December 2007 of R1 030 million.
- Of the loan facilities, R630 million does not amortise the capital, but there is a bullet payment at the end of the loan period (R430 million in July 2015 and R 200 million July 2014).
- The Group has a swap agreement in place to hedge against interest rate hikes. The swap rate is Buying at JIBAR of 9,6% and Selling at JIBAR of 12,3%. The swap agreement was fair valued as at the end of June 2008 at R78,08 million.
- The Group complied with all of its debt covenants during the period under review.

Biological assets

- As at the year-end, the Group had 55 237 ha of planted pine and eucalyptus at varying ages and 5 718 of unplanted areas.
- The hectares of timber younger than four years was 14 781 ha and four years and older was 40 352 ha.
- Depending on the age of the trees, a hectare would have an estimated volume (m³) of timber available at any point of time.
- The current estimated volume of all timber older than four years is 4 489 867m³ of pine and 339 779m³ of eucalyptus. The Group does not estimate a volume for trees that are younger than four years.
- For the timber four years and older and based on the market prices for each m³ of timber, a value is calculated. The timber that is younger than four years is valued at cost incurred (actual planting and maintenance costs).
- The average price per m³ of timber is R403 after deducting the harvesting costs of approximately R75 per m³ of standing timber. During the period under review market prices rose by 69%.
- The timber is valued as follows:

Timber younger than 4 years	R41 488
Timber 4 years and older	R1 947 876
Purchase of standing timber	R6 294
Net standing value	R1 983 070

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 widespread 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 have been salvaged. These latest fires will however further compound the long-term shortage as many of the trees that were damaged were under eight years old and are not salvageable.

During the period under review, industry log prices rose 69% whilst sawn timber prices rose by 24%. Processing operations throughout the timber industry experienced margin squeeze and several inefficient mills were forced to close.

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.

Forest fires

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 cash flow 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 additional working capital being unlocked.

Timber warehousing

This division has operated since 2002 from York's Cordellos 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. 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.

Dividends

Taking into consideration the debt facilities extended by York's bankers for the GFP acquisition and other growth plans, no dividend (save for preference dividends) was declared during the period under review. During the previous year no dividend was declared.

Strategy

York's short-term strategy is to procure further plantations in close proximity to its existing operations. These acquisitions will provide York with further growth and improved sustainability as the group becomes increasingly self-sufficient. In addition, management will focus on reducing costs and improving efficiencies of the recently acquired GFP operations.

Outlook

Notwithstanding slower trading conditions in 2008, York is well positioned to benefit from the timber shortage and eventual timber imports. The Group is approximately 60% self-sufficient from its own timber plantations, owns seven modern, well-managed sawmills and a plywood mill and is focusing on further acquisitions, locally and abroad, 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 so as to reap the benefits once the economy begins to improve.

Lance Cooper

Chief Executive Officer
17 September 2008

John Lehman

Chief Financial Officer

Executive Directors:

Lance Cooper (CEO), John Lehman (CFO), Gay Mokoena (Director Corporate Services)

Non-Executive Directors:

Jim Myers (Chairman, USA), Andrew Bonamour, Paul Botha, Dick Claunch, Shakeel Meer, Thiphopho Modise, Simon Murray, Piet Odendaal

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